Entrepreneurial Studies

Grade 11

Educational Publications Department



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First Print - 2015
Second Print - 2016
Third Print - 2019

ISBN 978-955-25-0321-4

Published by : Educational Publications Department and
Printed by: Savinda Graphic Systems (Pvt) Ltd
No. 145, UDA Industrial Estate,
Katuwana Road, Homagama.

The National Anthem of Sri Lanka

Sri Lanka Matha
Apa Sri Lanka Namo Namo Namo Namo Matha
Sundara siri barinee, surendi athi sobamana Lanka
Dhanya dhanaya neka mal palaturu piri jaya bhoomiya ramya
Apa hata sepa siri setha sadana jeewanaye matha
Piliganu mena apa bhakthi pooja Namo Namo Matha
Apa Sri Lanka Namo Namo Namo Namo Matha
Oba we apa vidya
Obamaya apa sathya
Oba we apa shakthi
Apa hada thula bhakthi
Oba apa aloke
Apage anuprane
Oba apa jeevana we
Apa mukthiya oba we
Nava jeevana demine, nithina apa pubudukaran matha
Gnana veerya vadawamina regena yanu mana jaya bhoomi kara
Eka mavakage daru kela bevina
Yamu yamu vee nopama
Prema vada sema bheda durerada
Namo, Namo Matha
Apa Sri Lanka Namo Namo Namo Namo Matha

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ஒரு தாய் மக்கள் நாமாவோம்
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நன்றே உடலில் ஓடும்
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பொன்னும் மணியும் முத்துமல்ல - அதுவே
யான்று மழியாச் செல்வமன்றோ.

ஆனந்த சமரக்கோன்
கவிதையின் பெயர்ப்பு.



Being innovative, changing with right knowledge
Be a light to the country as well as to the world.

Message from the Hon. Minister of Education

The past two decades have been significant in the world history due to changes that took place in technology. The present students face a lot of new challenges along with the rapid development of Information Technology, communication and other related fields. The manner of career opportunities are liable to change specifically in the near future. In such an environment, with a new technological and intellectual society, thousands of innovative career opportunities would be created. To win those challenges, it is the responsibility of the Sri Lankan Government and myself, as the Minister of Education, to empower you all.

This book is a product of free education. Your aim must be to use this book properly and acquire the necessary knowledge out of it. The government in turn is able to provide free textbooks to you, as a result of the commitment and labour of your parents and elders.

Since we have understood that the education is crucial in deciding the future of a country, the government has taken steps to change curriculum to suit the rapid changes of the technological world. Hence, you have to dedicate yourselves to become productive citizens. I believe that the knowledge this book provides will suffice your aim.

It is your duty to give a proper value to the money spent by the government on your education. Also you should understand that education determines your future. Make sure that you reach the optimum social stratum through education.

I congratulate you to enjoy the benefits of free education and bloom as an honoured citizen who takes the name of Sri Lanka to the world.

Akila Viraj Kariyawasam
Minister of Education

Foreword

The educational objectives of the contemporary world are becoming more complex along with the economic, social, cultural and technological development. The learning and teaching process too is changing in relation to human experiences, technological differences, research and new indices. Therefore, it is required to produce the textbook by including subject related information according to the objectives in the syllabus in order to maintain the teaching process by organizing learning experiences that suit to the learner needs. The textbook is not merely a learning tool for the learner. It is a blessing that contributes to obtain a higher education along with a development of conduct and attitudes, to develop values and to obtain learning experiences.

The government in its realization of the concept of free education has offered you all the textbooks from grades 1-11. I would like to remind you that you should make the maximum use of these textbooks and protect them well. I sincerely hope that this textbook would assist you to obtain the expertise to become a virtuous citizen with a complete personality who would be a valuable asset to the country.

I would like to bestow my sincere thanks on the members of the editorial and writer boards as well as on the staff of the Educational Publications Department who have strived to offer this textbook to you.

W. M. Jayantha Wickramanayaka,
Commissioner General of Educational Publications,
Educational Publications Department,
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2019.04.10

Monitoring and Supervision	W.M. Jayantha Wickramanayaka Commissioner General Educational Publications Department.
Direction	W.A. Nirmala Piyaseeli Commissioner (Development) Educational Publications Department.
Co-ordination	U. A. Nalini Senevirathna Assistant Commissioner Educational Publications Department.
	J.W. Rumesh Jayalath Assistant Commissioner Educational Publications Department. (2019)

Panel of Writers

D. S. Rajapaksha	Assitant Director Zonal Education Office, Balangoda
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M. P. S. R. Perera	Lecturer University of Sri Jayawardhanapura
Supuni Liyanagunawardana	Lecturer University of Sri Jayawardhanapura
K. Y. J. Somaratna	Lecturer University of Sri Jayawardhanapura
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C. L. M. Nawas	In Service Adviser Zonal Education Office, Ibbagamuwa
M. M. M. Asmi	Teacher Raseek Faried M. V. , Karandeniya

Panel of Editors

Rukmal Weerasingha	Senior Lecturer University of Sri Jayawardhanapura
Dr. M. D. Pushpakumari	Senior Lecturer University of Sri Jayawardhanapura
U. A. Nalini Senevirathna	Assistant Commissioner Educational Publications Dept.
A. B. Wijesooriya	Senior Lecturer National Institute of Education

Proof Reading

W. D. R. L.Fernando	Teacher D. S. Senanayaka College, Colombo

Technical Assistance

A. V. Ayesha Dilrukshi	Educational Publications Department

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Chapter 01

Business Plan

This chapter discusses the followings.

1.1 Introduction to a business plan

1.2 Composition of a business plan

1.3 Need for a business plan



1.1 Introduction to a business plan

" Failing to plan is planning to fail"

The above statement shows the importance of planning with regard to success in the field of Management. A plan is essential for success in anything. In Grade 10, you studied how to select a business opportunity through various methods of assessment. Now you should prepare to start up and implement your business. In fact, drawing up a plan to transform a business idea into a real business is a main function of an entrepreneur. This chapter will give you a basic understanding of what business plans are.

The following activity will help you check your understanding of business plans.



Activity 01

Read the given statements and indicate whether they are true (✔) or false (✕).

No.	Statement	✔ / ✕
01	Every person and organization has certain targets to accomplish.	
02	Every business that is started will be successful.	
03	The only way to be successful in a business is to put in a lot of money.	
04	Business plans should be modified according to the changes in the environment.	
05	If you want to assess how a business is performing, you need a plan.	
06	In business planning, you cannot be sure of the predictions regarding the external environment.	
07	As the factors of the environment keep on changing, preparing business plans is not necessary.	
08	A plan is necessary to succeed in any goal.	

Before making a business plan, you should study the business environment well. If you prepare your business plan that way, it would guide you to succeed in your business through using limited resources and suitable strategies. If not, you may not achieve your goals and the resources could be wasted as well.



Figure 1.1

Your school is an educational institution where various plans are being implemented. You would have seen the Year Planner in the main office of your school. It is a plan that includes the activities scheduled by your school for the relevant year. Your class time table is another example for a plan.



A business plan is a formal document that presents, in a structured and well-organized manner, the targets you expect to reach and the various activities that you will carry out at the start-up of a business and while running the business.

Based on this description, you can verify your answers for the Activity 01.

1.2 Composition of a business plan

There are several elements of a business plan. Out of them, let us focus on the following elements.

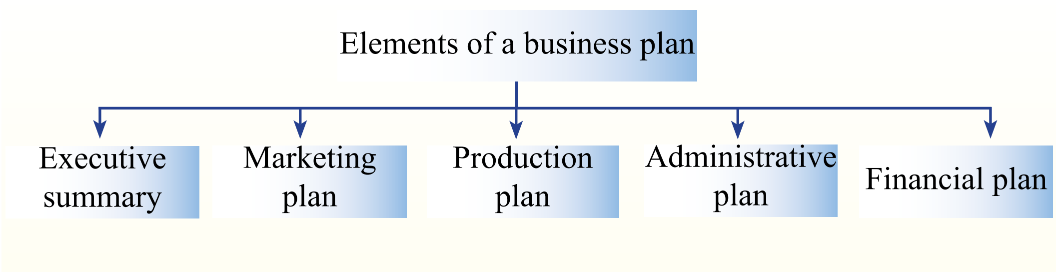


Figure 1.2 - Composition of a Business Plan

Let us take a brief look at each of them.

01. Executive summary

The executive summary is a summary of the entire business plan. It summarizes the most important information regarding the business for the benefit of the reader.

When a person reads the executive summary, he/she should be able to create a mental picture of the business based on the information presented there. The executive summary is usually about one page in length.



Figure 1.3

The following information is summarized in an executive summary:

- The name of the business, the industry that it belongs to, etc. (described very briefly)
  The name of the business that the entrepreneur wishes to start and information regarding the nature of the business.

- A summary of the Marketing plan, highlighting its most important points
  Target customers, expected demand and supply, price of the product, unique features in distribution and promotion, strategies for gaining competitive advantage, etc.

- A summary of the Production plan, highlighting its most important points
  Production process, production cost, unique features of the production process, etc.

- A summary of the Administrative plan, highlighting its most important points
  Administrative structure, administrative processes, etc.

- A summary of the Financial plan, highlighting its most important points
  Funds needed by the business, how the funds will be acquired, expected profitability of the business, etc.

- Uniqueness of the business (described very briefly)

  How the business organization is different from its competitors in terms of the uniqueness of the product, uniqueness of distribution, etc.

- Goals and objectives of presenting the business plan (in brief)

  Whether the entrepreneur wants to start a new business venture, to get a bank loan to expand an existing business or to manage the future activities in a methodical way through a self-investment should be included.

After the executive summary, the very next page should have a detailed description giving general information regarding the business. It will give information about the business and its owner or owners.

02. Marketing plan

This section details how the sales targets will be achieved. The following forecasted information has to be included here: the goods or service expected to be sold, the demand for the goods or service, marketing strategies, sales expenditure and sales income.

03. Production plan

Marketing plan mentions the quantity of goods or service that will be offered to the market. Production plan estimates the cost needs to be incurred when producing that quantity of goods or service.

04. Administrative plan

This section includes information on the human resources required for the business and the related costs.

05. Financial plan

Financial plan gives details regarding the sources of funds. It also includes estimates of income, expenses and profit.



Figure 1.4

By now, you would have gained a basic understanding about what a business plan is. Next, let us examine why an entrepreneur needs a business plan.

1.3 Need for a business plan

01. To make the business idea clear

A business plan gives details about the proposed goods or service to be offered and its uniqueness, to the persons who are interested of the business.

02. To understand the business environment

Business environment keeps on changing all the time. Changes occur in the internal environment of a business, as well as in the external environment including economic, social, political and technological and the natural environment. All of these changes can be identified early through business planning.



Figure 1.5

03. To guide the business

It indicates what activities should be done by each party involved in the business.

04. To indicate the future direction of the business

The business plan clarifies what status the business should achieve in future.

05. To raise the necessary funds

Investors prefer to put their money into profitable ventures. A business plan displays the proposed activities and expected benefits of the business. A business plan is essential for organizations such as banks when making investment-related decisions.

06. To make a good estimate of the demand

The market demand is a main factor determining the success or failure of a business. It is necessary to be well aware of the competitors and substitutes, as well as their market share and strategies; and to form suitable strategies to face them. All of these require planning.

07. To identify the resources required for the business

A business plan identifies the physical and human resources necessary for business activities.

08. To find out the success of the business

If you forecast your business activities before starting up the business, you can see what outcome you will be getting by the end of a given period of time. If you have successfully forecasted your business plan, you can understand today whether your business will be a success or a failure in future. This will help you to face future uncertainties successfully.

09. To get an overall image of the business

A business plan gives details about the various activities of the business for a given period of time in future. So it provides a clear view of how the business will be in future.

Activity 02

Given below are some details that should be in a business plan. Against each of them, indicate the section of the business plan where it should be included.

Index No.	Description	Section
01	Marketing strategies of the competitors	
02	Types of employees needed for the business	
03	Summary of the entire business plan	
04	Financial needs	
05	Estimated salary for office employees	
06	Estimated promotional expenditure	
07	Minimum qualifications for each type of employee	
08	Forecasted electricity charges for the factory	
09	Nature of the business	
10	Inward and outward financial flow of the business	
11	Cost of a unit of production	
12	Location of the business	
13	Sales forecast	
14	Targeted sales area	
15	Annual requirement of raw materials	

Let’s Answer



01. What do you understand by a “business plan”?

02. Name the elements of a business plan.

03. Indicate the parties that would benefit from a business plan.

04. What are the difficulties that a business may face when there is no business plan?

05. Explain the importance of the executive summary of a business plan.

Chapter 02

Marketing Plan

This chapter discusses the followings.

2.1 Introduction to a marketing plan

2.2 Market analysis

2.3 Marketing strategies of the proposed business

2.4 Sales forecast

2.5 Sales income and sales expenses

2.6 Marketing fixed assets

2.7 Preparing a marketing plan



2.1 Introduction to a marketing plan

A marketing plan can be identified as the basis of the entire business plan. This is because all other parts of a business plan will be prepared based on the information of the marketing plan, such as customer needs of the target market and quantity of units in demand.

The marketing plan explains what goods or service an entrepreneur expects to offer, its potential market and the related marketing strategies. It also includes the projected sales for the product and the sales expenses to be incurred.

Marketing plan is the document that presents the goods or service that is expected to be marketed by an enterprise, its target market, and how the target market will be reached.

The following information is included in a marketing plan:

- ☆ Market analysis
- ☆ Marketing strategies of the proposed business
- ☆ Sales forecast
- ☆ Sales income and sales expenses
- ☆ Marketing Fixed Assets

Let us examine each of them briefly.

2.2 Market analysis

A market analysis refers to exploring the market in relation to the business. It deeply investigates the demand for the goods or service, the target customers, the nature of the competitors and their marketing strategies, etc. This will help the entrepreneur understand the factors that he/she should consider when deciding on marketing strategies for his/her business.

The main purpose of a market analysis is to get the necessary information to prepare an accurate marketing plan. Therefore, a market analysis is the first step of preparing a marketing plan.

Obtaining information for a market analysis

Information needed for a market analysis can be gathered through different means. Given below are some of the methods used often for this purpose:

- Distributing questionnaires among customers and getting their responses
- Interviewing customers
- Observering customers' transactions in the market
- Using sources such as newspapers, magazines, reports, internet etc.

Important factors in a market analysis

1. The demand for the goods or service

   What the entrepreneur expects to offer to the market may be something that is already available in the market. If not, it could be a modified version of something that is already available, or something entirely new. Whatever it is, it is necessary to examine the customers' willingness to buy it as well as their ability to buy it.

2. Target customer

   This refers to the customers who we can expect to buy the product, or who we can expect to be persuaded to buy it in future.

Let us identify the target customer through the following examples:

Goods/ service	Target customer
Exercise books	School students
Gold Jewelry	Ladies
Preparatory material for Grade 5 Scholarship examination	Students of Grades 4 and 5
Mobile phone repairing	Mobile phone users
Sports goods	Sportspersons

An entrepreneur must identify his/her target customer correctly. This can be done in a very specific manner by considering factors such as the customer's age, income level, gender, occupation, social status, etc.

3. Competitors

The same kind of goods or services can be offered to the market by many different suppliers. The other suppliers who provide goods or services that are similar to those that we offer are our competitors. There are many varieties of toothpaste, soap, chocolates, telecommunication services, etc available on the market under different brand names, and these are examples for competitive goods and services.

In addition to such homogeneous products, there can be substitute goods/ services as well.

Given below are some examples for substitute goods/ services.

Goods/ Services	Substitute
Laundry soap	Laundry powder (washing powder)
Butter	Margarine
Western medicine	Ayurvedic medicine
Cab services	Three wheelers
Tea	Coffee

Therefore, when studying competition, it is important that you consider the homogeneous products (i.e. goods and services which are similar to yours), as well as substitute products. In addition, you should pay attention to the marketing strategies used by your competitors.



Activity 01

Select several goods and services available in the market. Write down some homogeneous products and substitute products for each of them.

Goods/ Service	Homogeneous products	Substitute products

2.3 Marketing strategies of the proposed business

By exploring the market, the entrepreneur can understand the marketing strategies used by the competitors. Then the entrepreneur has to select strategies for his/her own business, so that it can face the competition successfully. Selection of marketing strategies should be based on the marketing mix. There are four main variables of the marketing mix, which are also known as the 4 Ps: Product, Price, Place and Promotion. Given below is a short description of the 4 Ps.



Figure 2.1

Product

Products refer to goods or services offered to the market which can satisfy the customer needs or wants.

This involves information regarding the product such as its content, ingredients, shape, quality, size, brand name, instructions for use, etc.

Price

The cost incurred by the customer when obtaining a product is called its price. This is a main factor that determines the demand for the goods as well as the profit earned by the entrepreneur.

Pricing strategies, how the prices are to be set, any discounts to be given etc are considered here.

Place

This refers to how the goods or service will reach the target customer. Different strategies can be used to make the goods/service available to the customers. For example, the entrepreneur may sell the goods directly to the customer, or through retail traders. If not, the entrepreneur can sell the goods to the wholesale trader, who sells them to the retail trader, who in turn sells them to the customer.

Out of all such strategies, the most suitable one/s should be considered to make the product available to the customer.

Promotion

Businesses use various strategies to create a demand for their goods or services, to increase the existing demand and to attract the customers. These strategies are called promotion.

The following are some possible means of promoting a product.

- Television, radio, newspapers, banners, leaflets, posters
- Methods involving new technology, such as promotions over Websites, Facebook, etc
- Using mobile SMS
- Meeting the customers in person
- Organizing charity programmes and artistic or cultural events



Figure 2.2

As described above, the marketing plan should include the promotional strategies for attracting the customers and retaining their loyalty for the product.

2.4 Sales forecast

A sales forecast refers to determining the quantity of goods or services to be marketed within a provided period of time in future. After analyzing the market, the entrepreneur can understand the demand for his/her product within the target market. There may be a large market for the product.



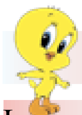
Figure 2.3

An entrepreneur may not cover the entire market demand at the time of starting up the business. Depending on the strength of his/her business, the entrepreneur can forecast the unit of sales of the market share.

Example :-

The demand for a certain product is 15 000 units per week. The current competitors provide only 12 000 units. Therefore, there is a market gap for 3 000 units. It is the new entrepreneur who should decide whether he/she can supply all 3 000 units or only a part of it.

When making a sales forecast, the expected quantity of sales can be calculated per day, per week, per month, per trimester, per year, etc. It would facilitate the decision making. The forecasted market share should be included in the marketing plan.



Activity 02

Indicate a type of good and a type of service that an entrepreneur can offer targeting each of the groups of customers given below:

No.	Target market	Good	Service
01	People over 65 years of age		
02	Pre-school children		
03	Women who wish to work in the Middle East		
04	Private bus owners		
05	Students expecting to follow their higher education abroad		
06	Electricians		
07	Working mothers		
08	Small scale businessmen		
09	Doctors		
10	Diabetics patients		

2.5 Sales income and sales expenses

Sales income

By multiplying the number of units to be sold by the expected selling price, we can calculate the sales income.

Expected sales income = Expected number of units to be sold (goods or service) x Expected selling price of a unit

Marketing expenses

All expenses incurred in marketing the goods or service are taken under sales expenses.

Example :-

Salaries and wages for Marketing managers and staff

Expenses related to sales outlets (if any), such as rental, maintenance, electricity, water, insurance, etc

Office expenses such as telephone charges, stationery, etc

Publicity and promotion-related expenses

Depreciation expenses - based on the lifetime of a fixed asset such as sales vehicles, office equipment, a portion of its value should be deducted in the form of an expense. This is called depreciation.

As indicated above, the forecasted data regarding the total sales income and expenditure should be included in the marketing plan.

2.6 Marketing fixed assets

These are the fixed assets that are directly relevant to the sales and distribution activities of the business.

Example :-

Land and buildings, machinery, equipment, vehicles, office tools and furniture, etc. which are used in sales and distribution-related activities



Figure 2.4

2.7 Preparing a marketing plan

To further clarify the concepts discussed above, let us study a marketing plan prepared for the following scenario.

After having considered a number of business ideas, Akila Jayawardene finally decided to manufacture yoghurt.

He thought of starting the business targeting his own town, Araliya, in Rathnapura. Given below is the information he found from studying the market for yoghurt in the area:

Population in Araliya 40 000 citizens

5% of the population eat yoghurt every day. At present, 75% of the yoghurt sold in the market is dairy yoghurt and 25% is fruit yoghurt.

Details about competitors

Competitor	*Monthly supply*	*Market share*
Rajarata yoghurt	*12 000*	*20%*
Saumya yoghurt	*18 000*	*30%*
ABC Foods Co.	*6 000*	*10%*
Healthy Foods Co.	*24 000*	*40%*
Total	*60 000*	*100%*

Marketing strategies used by competitors

Product : offering two varieties, i.e. dairy yoghurt and fruit yoghurt

Price : according to market price

Place : through retail traders

Promotion : displaying name boards carrying the name of the yoghurt at retail shops, displaying posters

Akila understood that 50% of the demand for yoghurt in the area was fulfilled by external companies and 50% by two local manufacturers.

Therefore he decided to capture 10% of the market share in the first year of business. The following strategies were selected.

Product: dairy yoghurt and fruit yoghurt

Price : competitive market price

Place : selling through retail traders and restaurants, and selling from the place of manufacture

Promotion: displaying posters at the outlets, offering stickers for children

A three-wheeler worth Rs. 480 000 will be bought to distribute yoghurt.

Other expected expenses are given below:

Annual depreciation of the three-wheeler - Rs. 4 800

Annual insurance premium of the three-wheeler - Rs. 4 800

Monthly fuel and service expenses - Rs. 7 200

Monthly salary for sales staff – Rs. 10 000

Monthly expense for printing posters – Rs. 1 500

Monthly expense for printing stickers – Rs. 2 000

Distribution of yoghurt will take place five days a week. The market price of a cup of yoghurt is Rs. 30. There is no difference in price between dairy yoghurt and fruit yoghurt.

Marketing Plan

1. Product

Information regarding the proposed product

1. Dairy yoghurt (includes milk, sugar and vanilla)
11. Fruit yoghurt (includes milk, sugar, vanilla, pieces of fruit and jelly)

2. Target group

Population of Araliya, Rathnapura. Population is 40 000 citizens.

3. Target sales area

Araliya, Rathnapura

4. Market for the proposed product

Product	No. of target customers	Pattern of consumption	Monthly demand		Annual demand	
			Quantity	Value Price x Units	Quantity	Value
1. Dairy yoghurt	1 500 (Daily)	Year-round demand	45 000 (60 000 x 75%)	1 350 000 (45 000 x 30)	540 000 (45 000 x 12)	16 200 000 (540 000 x 30)
2. Fruit yoghurt	500 (Daily)	-do-	15 000 (60 000 x 25%)	450 000	180 000	5 400 000
			60 000	1 800 000	720 000	21 600 000

5. Analysis of supply from competitors

	Principal competitors	Goods/ services supplied by them	Their market share (approximately)
1	Rajarata Industries	Dairy yoghurt/ fruit yoghurt	20%
2	Saumya Industries	-do-	30%
3	ABC Foods Co.	-do-	10%
4	Healthy Foods Co.	-do-	40%
			100%

6. Target market share

Product	Expected market share
1. Dairy yoghurt	10%
2. Fruit yoghurt	10%

7. Marketing strategies used by competitors

Marketing mix	Strategies
Product	Offering two varieties, i.e. dairy yoghurt and fruit yoghurt; ensuring the good quality and hygienic nature of the product
Price	Setting a competitive price
Place	Distribution through retail traders
Promotion	Displaying name boards carrying the name of the yoghurt at retail shops; displaying posters in the sales area

8. Proposed marketing strategies of the entrepreneur

Marketing mix	Strategies
Product	Offering two varieties, i.e. dairy yoghurt and fruit yoghurt
Price	Setting a competitive price
Place	Through retail traders and restaurants;
Promotion	Displaying posters at the outlets; offering stickers to attract children

9. Annual sales forecast

Goods/ service	No. of units to be sold per month	Unit price Rs.	Monthly sales Rs.	Annual sales Rs.
Dairy yoghurt	4 500	30	135 000	1 620 000
Fruit yoghurt	1 500	30	45 000	540 000
Total	6 000		180 000	2 160 000

10. Sales expenses

Item	Monthly sales expenses	Annual sales expenses
Salary for Sales staff	10 000	120 000
Vehicle depreciation	400	4 800
Sales vehicle insurance	400	4 800
Fuel and service expenses	7 200	86 400
Posters printing expenses	1 500	18 000
Stickers printing expenses	2 000	24 000
Total	21 500	258 000

11. Marketing fixed assets

Item	Value Rs.	Annual depreciation Rs.
Three-wheeler	480 000	4 800

Activity 03

Sasmitha decided to start a business of manufacturing and selling sweets. She visited several restaurants in the area to find out about the sweets available for sale and the demand for them.

Based on the information given by the restaurant owners, she understood that there were many who manufactured sweets using wheat flour. However, there were only a few who manufactured sweets out of rice flour and kurakkan flour.

Through a market analysis, she understood that a considerable number of people, being diabetic, were starting to use rice flour and kurakkan flour. Given below is some information that she has collected:

Her hometown, Jayagama in Akuressa, has a population of around 80 000 citizens

20% of the population like food made of kurakkan flour and rice flour

They wish to buy sweets at least once in two days

The main competitors and their market shares are as follows:

'Vimansi Sweets' – 30%
'Arundathi Sweets' – 35%

The marketing strategies of the competitors –

Ensuring the taste and hygienic quality
Distributing once per two days and having the unsold items returned to them
Displaying sales posters near shops that sell sweets

Sasmitha decided to start up the business covering 25% of the market. She will be using the same marketing strategies as her competitors. In addition, she decided to circulate flyers giving information about her products.

At the beginning, she decided to offer rice-and kurakkan-flour-mixed cake and Aluva. Their market price will be as follows:

Cake - Rs. 20
Aluva - Rs. 10

A motorcycle worth Rs. 200 000 will be bought to distribute the products.

Given below are the estimated expenses:

Monthly salary for the employee distributing the products – Rs. 15 000
Insurance (annual) Rs. 3 000
Fuel (monthly) Rs. 10 000
Service charges (monthly) Rs. 1 500
Motorcycle depreciation (annual) Rs. 4 800

Flyers and sales posters will cost Rs. 6 000 per year.

Based on the above information, prepare the marketing plan for 'Sasmitha Sweets'.

Let's Answer



01. What is a marketing plan?
02. Name the sections of a marketing plan.
03. Name the 4Ps and describe them briefly.
04. What are the means of collecting information for a market analysis?
05. Explain what do you mean by marketing fixed assets.

Chapter 03

Production Plan

This chapter discusses the followings.

3.1 Introduction to a production plan

3.2 Production process

3.3 Production fixed assets

3.4 Production cost

3.5 Unit cost of production

3.6 Preparing a production plan



3.1 Introduction to a production plan

A production plan is another important element in a business plan. A production plan is prepared with the aim of calculating the production cost and the cost per one unit of the product.

You have already studied the marketing plan. There, the entrepreneur estimated the quantity of goods or services that he/she expects to sell. The next step is estimating the cost for producing that quantity of goods or services. This requires a production plan.

When producing any good or service, it is necessary to incur a cost. For instance, think of your exercise books. When producing exercise books, you will initially need paper, stapler pins and printed covers. You will also need machinery for cutting up and binding the books. In addition, you need employees to do all the work.

All of these result in some cost. When a large quantity of goods or services is produced, you will need more material and more workers, and the cost will increase as well. Therefore, a proper production plan must be prepared, taking all the expenses into account.

A production plan is the document estimating the cost for a number of production units.

Information included in a production plan

- Production process
- Production fixed assets
- Production cost
    - Material
    - Labour
    - Other costs (Production overheads)
- Unit cost

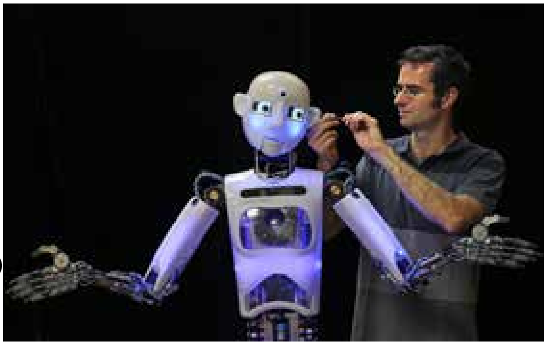


Figure 3.1

Now let us study these in more detail.

3.2 Production process

Production process describes how the goods or service will be produced. This includes details on what kind of input will be used, what changes will be made to the input, and what the final product will be. Here, input refers to the resources needed to produce some goods or service.

Let us try to understand the production process through the following example on how to make a cup of tea.

Input	Process of conversion	Output
Water Sugar Tea leaves Milk powder A teapot A gas burner Gas A cup A jug A strainer A spoon A tray Labour	Put the water in to the kettle and boil Wash the utensils Put milk powder and sugar into the jug and mix well Put the tea leaves into a jug and add boiled water Strain off the tea leaves to the jug where the milk powder and sugar and stir well Strain the milk tea into the cup which has been washed	A cup of tea 

Similarly, there is a production process for any product, indicating the relationship between the input and the output. This can be displayed as follows:

Input → process of conversion → output



Activity 01

Explain the production process for each of the following:

A wooden table
A shirt
A brick (made of clay)

3.3 Production fixed assets

Buildings, machinery, equipment etc that are used for long term, again and again in the production process are known as production fixed assets.

3.4 Production cost

Production cost refers to the total cost incurred for material, labour and other expenses (production overheads) during the production of a product.

Production cost = material + labour + other expenses

Let us look at each of these separately.

Material and material cost

The input used in producing any good or service is called material. The money spent on the material is the material cost.

> In the previous example, water, sugar, tea leaves and milk powder can be considered material, and the cost incurred for them is the material cost.

Labour and labour cost

The process of converting input into output requires human labour. A payment must be made for labour, and this can be identified as labour cost. These payments are called salaries and wages.

Other expenses incurred in production

Apart from the above material and labour costs there are other expenses which are incurred through the production activities. Such expenses can be taken as other expenses incurred in production. In the previous example, if there were an electric bulb lit at the time of making tea, it would also amount to a certain cost. Such general expenses are considered under this category. In addition, based on the lifetime of a fixed asset, a portion of its value should be deducted in the form of an expense. This is called depreciation.

In a manufacturing plant, electricity used for lighting, salary for the security guard, insurance coverage for the plant, depreciation of fixed assets etc are examples for other expenses.

3.5 Unit cost of production

When the total production cost is divided by the number of units produced, we get the production cost of one unit.

$$\text{Unit cost of production} = \frac{\text{Total production cost}}{\text{Number of units}}$$

3.6 Preparing a production plan

To further clarify the concepts discussed above, let us study the production plan prepared for the following case.

Given below is the estimate on production expenditure for the business owned by Maya Randiya. This enterprise manufactures 12 000 cement-and-sand concrete bricks per month.

Monthly expenditure estimate

Cement – 150 bags (Rs. 900 per bag)
Sand – 50 cubes (Rs. 6 000 per cube)
Lubricant oil – 20 liters (Rs. 50 per liter)
Water expense Rs. 3 000
Electricity expense Rs. 3 000
Maintenance Rs. 1 000
Trained labour – 1 person (Rs. 25 000 per month)
Untrained labour – 1 person (Rs. 10 000 per month)
Machinery depreciation Rs. 2 000

Business of Maya Randiya
Production Plan

Item	Monthly requirement	Unit price Rs.	Total expenditure
Cement (bags)	150	900	135 000
Sand (cubes)	50	6 000	300 000
Lubricant oil	20	50	1 000
Water	-	-	3 000
Electricity	-	-	3 000
Maintenance	-	-	1 000
Trained labour	01	25 000	25 000
Untrained labour	01	10 000	10 000
Machinery depreciation	-	-	2 000
Total production cost	-	-	480 000
Unit cost		480 000 ÷ 12 000	40



Activity 02

Given below is the list of daily expenses incurred by "Praneetha Sweets", which produces 25kg of Kalu Dodol per day. Based on this, calculate the total production cost and the unit cost.

Item	Daily requirement	Unit price Rs.	Total expenditure Rs.
Sugar	15 kg	100	1 500
Rice flour	20 kg	100	2 000
Coconut (large)	20	50	1 000
Cashew nuts, cardamom, etc.	200 g	-	600
Fire wood (bundles)	04	100	400
Labour	1	1 500	1 500

Let's Answer

01. How would you identify the production plan?
02. What are the parts of a production plan?
03. What are 'production fixed assets'?
04. Explain the production process using an example.
05. Indicate how to calculate the unit production cost.



Chapter 04

Administrative Plan

This chapter discusses the followings.

4.1 Introduction to an administrative plan

4.2 Administrative positions and functions

4.3 Employee salaries and wages

4.4 Other administrative expenses

4.5 Administrative fixed assets

4.6 Preparing an administrative plan



4.1 Introduction to an administrative plan

It is difficult for the owner/s of a business to run all the business activities by themselves. Therefore they need various human resources for the business. The administrative plan is the document that contains the information and cost estimates regarding the human resources that a business needs. It also describes the functions, responsibilities and authorities of each person involved in the business.



Figure 4.1

The following information is included in an administrative plan

- ☆ Administrative positions and functions
- ☆ Employee salaries and wages
- ☆ Other administrative expenditure
- ☆ Administrative fixed assets

Now let us discuss each of these in detail.

4.2 Administrative positions and functions

A business organization consists of various divisions to handle its different activities related to production, marketing, finance, administration, etc. and there are many positions that come under each of these divisions. It is the administrative plan that gives information on these positions in the business organization: the functions and responsibilities assigned to each position and the qualifications required. An organizational chart can be used to indicate the divisions of a business organization based on its functions, as well as the various positions in the organization and their hierarchy.

Figure 4.2 given below shows the divisions of a business organization based on its basic functions. It is an example for an organizational chart showing the administrative positions of an organization.

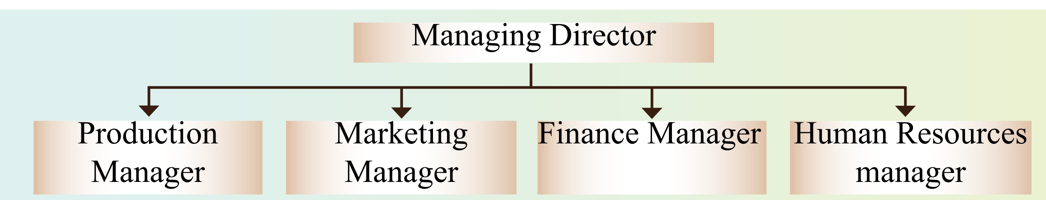


Figure 4.2

Figure 4.3 is an organizational chart showing the positions that come under the production division.

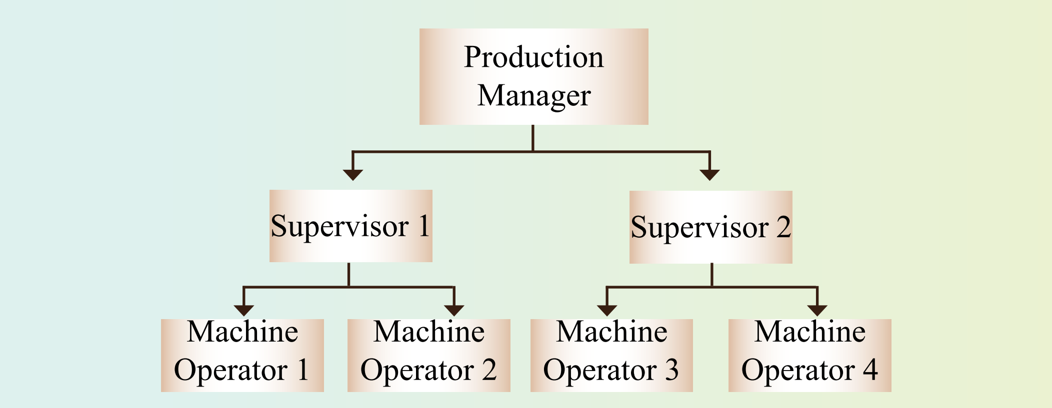


Figure 4.3

In an administrative plan, you can present the various positions, their functions and responsibilities through a table. Given below is an example, showing the functions, responsibilities and qualifications pertaining to the position of an Accountant:

Functions	Responsibilities	Qualifications
Supervising the purchasing committee Approving final payments Signing cheques Preparing financial statements	Submitting the financial reports on the due date	Being a qualified Chartered Accountant



Activity 01

01. Draw an organizational chart to show the administrative structure of your school.

02. Complete the following table with information pertaining to three positions in your organizational chart.

Position	Functions	Responsibilities	Qualifications

4.3 Employee salaries and wages

The administrative plan should present an estimate of all the payments that will be made to the people holding various positions in the organization. If the owner/s of the business also perform some work and they have to be paid for it, those payments should also be included in the plan.

4.4 Other administrative expenses

Apart from salaries and wages, if there are any other expenses related to the administrative functions of the business, they should be included in the estimate of expenditure.

The following are some examples for expenses which are related to the administrative functions.

Rental for buildings, telephone charges, stationery expenses, maintenance of administrative fixed assets repair and depreciation, office electricity charges, postal charges, etc.

4.5 Administrative fixed assets

There are fixed assets which are directly related to the administrative functions of a business, such as buildings and installations, office equipment, etc. The depreciation of these assets should be calculated based on their value and lifetime, and it should be indicated as an administrative expense.

4.6 Preparing an administrative plan

To further clarify the concepts discussed above, let us study the administrative plan prepared for the following case.

After completing her school education, Geetha Weerasooriya joined a vocational training course where she gained knowledge and training on manufacturing traveling bags. After that, she worked for a short period as a supervisor in a factory manufacturing traveling bags. Having resigned from the job, Geetha wishes to start her own business of manufacturing traveling bags.

She wants to start the business with 10 sewing machines and plans to rent a building in the town. She herself will serve as the General Manager and will claim a salary of Rs. 25 000 per month. In addition to her functions as the General Manager, she will handle the activities related to purchasing and selling. Further, it is she who will cut the material for sewing the bags with.

Geetha's brother who has completed his G. C. E. Advanced Level examination will join her business as an Assistant Manager. She plans to get his help for supervising the other 10 employees and managing the accounts. His proposed salary is Rs. 15 000 per month. The machine operators who have passed the G. C. E. Ordinary Level examination with experience over 06 months will sew the traveling bags.

The following are the expected administrative expenses:

Telephone charges (monthly) Rs. 2000
Stationery expenses (monthly) Rs. 250
Insurance (annual) Rs. 1500

It is expected to buy office equipment worth Rs. 65 000. Annual depreciation of office equipment is considered as 10%.

Administrative Plan

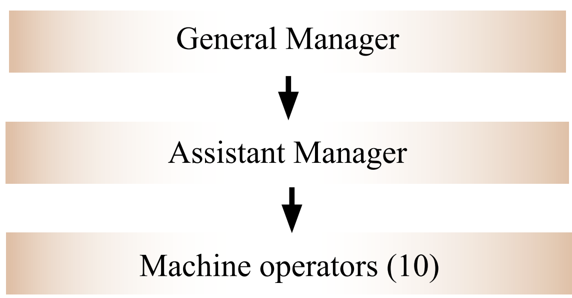
01. Details regarding the entrepreneur:

Entrepreneur : Geetha Weerasooriya

Qualifications : Passed G.C.E. Advanced Level examination
Obtained a Certificate in Vocational Training

Work experience : Worked as a supervisor in a bags manufacturing factory

02. Organizational chart



03. The main positions in the organization and their responsibilities

Position	Functions	Responsibilities	Qualifications
General Manager	Managing the business Purchases Sales Cutting the material for the bags	Efficiently managing production, sales and administration of the business Quality control	G.C.E. Advanced Level Certificate of vocational training Work experience
Assistant Manager	Supervising the employees Maintaining the accounts	Ensuring the achievement of production targets	G.C.E. Advanced Level
Machine operator	Sewing the traveling bags	Meeting the standards of production Meeting the production targets	G.C.E. Ordinary Level Work experience (over 6 months)

04. Administrative expenditure

Item	Expenditure (Monthly) Rs.	Expenditure (annual) Rs.
Salary for the Manager	25 000	300 000
Salary for the Assistant Manager	15 000	180 000
Depreciation of office equipment	650	7 800
Insurance	125	1 500
Telephone charges	2 000	24 000
Stationery charges	250	3 000
		515 000

05. Fixed assets

Item	Value (Rs)	Annual depreciation Rs.
		1st year
Office equipment	65 000	7 800

For free distribution.

Activity 02

Given below are several positions in a garment factory:

1. Production Manager
2. Administrative Officer
3. Finance Manager
4. Marketing Manager
5. Sewing Machine Operator
6. Accounts Clerk

From the list given below, select the qualifications, functions and responsibilities that match each of these positions and complete the table.

Position	Qualifications	Functions	Responsibilities
1.			
2.			
3.			
4.			
5.			
6.			

Qualifications

1. Passed GCE Ordinary Level examination, six months' work experience
2. Special degree in Marketing
3. Degree in Human Resource Management
4. Degree in Fashion Designing and Product Promotion
5. Chartered Accountant
6. Passed GCE Advanced Level in Commerce stream, passed Stage 1 in a course in Accountancy

Functions

1. Making financial decisions
2. Leading production activities
3. Sewing clothes
4. Maintaining employee files
5. Recording daily transactions
6. Organizing promotional events

Responsibilities

1. Ensuring the continuity of production
2. Meeting sales targets
3. Maintaining a motivated work force
4. Meeting daily production targets
5. Recording the transactions correctly
6. Ensuring the financial stability of the organization

Let's Answer



01. What is an Administrative Plan?

02. What information do you include in an Administrative Plan?

03. List some Administrative Fixed Assets.

04. Name the basic administrative divisions in an organization and indicate the positions that come under them.

05. List several functions of a Production Manager.

Chapter 05

Financial Plan

This chapter discusses the followings.

5.1 Introduction to a financial plan

5.2 Activities and expenses to prior to business startup

5.3 Assessment of financial investment

5.4 Statement of expected cash inflows and outflows

5.5 Calculating business results

✷ Overall Business Plan



5.1 Introduction to a Financial Plan

You have studied the marketing, production and administrative plans that should be included in a business plan from the previous chapters. This chapter explains the final and the most important part of a business plan, i.e. the financial plan. The forecasted financial requirements and the profitability of the expected business is included in the financial plan.

Further, the money expected to invest in the business, cash inflows and outflows and the daily cash requirements of the business are estimated by a financial plan. Similarly this shows the expected profit calculated considering the forecasted income and expenditure of the business for a specific period.

Financial plan is useful for an entrepreneur due to following reasons.

- ✰ To decide the amount of funds required for the business
- ✰ To minimize financial problems
- ✰ To identify the business result (profit/loss) of the business at the end of a specific period
- ✰ To assess the adequacy of the above said business result

Information included in a financial plan are given below.

- ✰ Activities and expenses prior to starting the business
- ✰ An estimation of the total investment
- ✰ Statement of expected cash inflows and out flows
- ✰ Calculation of expected business results

Let's briefly discuss each of these parts.

5.2 Activities and expenses prior to business startup

There are activities to be completed and expenses to be incurred before starting any activity. Similarly, before starting a business, certain activities should be done and expenses should be borne by the entrepreneur. Some such activities and expenses are given below.

Expenses on market survey

One of the main things done before starting a new business is studying the market relating to the business. We call this a market survey. Expenses on market survey includes expenses incurred to gather the required data, to analyze them and to prepare reports relating to the expected business.

Examples :-

Expenses required to study the consumer needs, competitors, distribution methods of products and service, price for which the product or the service can be sold

Expenditure on improving the business premises

The business premises should be arranged to suit the business before starting the business activities. Expenses that should be incurred with this regard are known as expenditure on improving the place.

Examples :-

Installation of electricity, water, internet facility, telephone networks and expenses of land preparation, cleaning and preparing the premises.



Figure 5.1

Expenditure for searching the raw materials and the equipment

Before starting the business, equipments required to the business should be bought and installed. Similarly, if the business is a production, entrepreneur should search for the methods and institutions to get the raw materials and equipments cost-effectively. Cost incurred to find the information relating to the suppliers (institutions) of the raw materials and equipment, their prices, etc. come under this category.

Examples :-

Expenses incurred to visit the suppliers and inspect the materials and equipment, exchange the files and documents, sample inspection

Registration Expenses

When starting a business it should be registered at authorized institutions. Further, for some businesses, a special approval or licenses should be obtained.

Examples :-

A special license should be obtained from the following institutions when starting a business relating to granite quarrying

Central Environmental Authority -Sri Lanka

Department of Archeology

Geological Survey and Mines Bureau

Expenses incurred to register the business and to obtain licenses come under this category.

Other Expenses

All other expenses which are not mentioned above and but are to be incurred when starting a business come under this category.

Examples :-

Legal expenses, cost of business plan preparation, expenses for the inauguration ceremony



Figure 5.2

Activity 01

Some of the expenses of newly started "Prathiba" business are given below. If they are pre-startup expenses mark (√) and if not mark (×) in the given box.

No.	Expense	✓ / ×
01	Paid Rs. 25 000 to ABC company for the market survey	
02	Bought furniture to the office for Rs. 60 000	
03	Paid Rs. 1 500 for the relevant authority council for licenses	
04	Paid Rs. 5 000 to clean the buildings	
05	Cost of preparing the premises to get the electricity supply is Rs. 4 000	
06	Charge to lay cables for the computer network Rs. 8 000	
07	Bought 10 computers for Rs. 800 000	
08	Paid for the preparation of business plan- Rs. 20 000	
09	Expenses for entertainment on the starting day of the business Rs. 8 500	
10	Expenses for exchanging information with the suppliers Rs. 1 000	

5.3 An estimation of the total investment

It is important for an entrepreneur to identify the required investment of the expected business in advance. A total investment estimate is prepared for this purpose. Sometimes this is known as "cost of the project".

Contents of a total investment estimate

The total investment estimate of a business plan consists with the following elements.

- ✰ Value of the fixed assets
- ✰ Expenses that should be incurred prior to business startup
- ✰ Initial funds required to conduct the day to day business activities (working capital)

Value of the fixed assets

Fixed assets like land, buildings, machineries, equipments, vehicles and furniture are required to conduct business activities. These assets can be utilized for future years in the business. Here all long-term assets and their values that are included in the production, marketing and administrative plans mentioned earlier are considered as fixed assets of the business.

Expenses that should be incurred prior to business startup

We have studied the expenses that should be incurred prior to business startup in the section 5.2 above. All those expenses are taken in to consideration when preparing the total investment estimate.

Expenses required to conduct the day to day business activities

Entrepreneur should possess an adequate amount of funds at the beginning of the business in order to conduct the business activities continuously and smoothly. The amount of cash required to conduct the day to day business activities are also known as working capital.

When deciding the initial working capital requirement of the business, it is necessary to calculate the production, marketing and administrative expenses that are required from the beginning of the business activities till cash flows in to the business.

Such working capital is estimated based on funds required for all expenses for the above said period including materials, employee salaries, water, telephone, advertising, distribution, rental and interest should be calculated.

It is unfavorable for a business to have an excessive working capital or a deficit and should maintain on an optimum level. If adequate working capital is not available within the business, the smooth and continuous flow of business activities will be disrupted.

Examples :-

If enough cash is not available to buy the raw materials in due time, the business will not be able to do its production. As a result, all the business activities will be stagnated and delayed and business will generate losses.

The disadvantage of maintaining a working capital surplus is the loss of income that can be earned by investing those money in another investment.

Having to pay a higher interest or comply with disadvantageous conditions when getting money instantly for a certain requirement could arise due to a working capital deficit.

After deciding the value of fixed assets, pre-startup costs and working capital requirement, it is necessary to decide whether the business is going to cover those requirements through the owners' investments or funds acquired from external parties.

Study how a total investment estimate is prepared through the following exercise.

Information relating to the business plan prepared for the business "Wardhana Exercise Books" of Mr. Sarath Siriwardene is given below.

Cost estimations	***Rs.***
Buying a paper cutting machine	*150 000*
Business registration fee	*1 500*
Preparing the premises to obtain an electricity supply	*25 000*
For office furniture	*80 000*
Buying a computer to the office	*65 000*
Buying a vehicle for sales and distribution	*1 500 000*
Buying a fax machine	*15 000*
Cost of preparing the business plan	*22 000*
Expenses for the inauguration day ceremony	*15 200*
Market survey expenses	*18 000*

The building which is expected to be used as the production center belongs to Mr. Sarath Siriwardene and its value is Rs. 2 000 000.

It has been suggested to get a bank loan of Rs. 1 000 000 to buy the sales vehicle.

It is estimated that an amount of cash sufficient for two weeks is required to run the business activities and the amount is estimated to be Rs. 350 000.

"Wardhana Exercise Books"
Estimation of Total Investment

	Proposed investment		Total investment Rs.
	Provided by the owner Rs.	Bank loan Rs.	
Fixed Assets			
Building	2 000 000		2 000 000
Sales vehicle	500 000	1 000 000	1 500 000
Office furniture	80 000	-	80 000
Computer	65 000	-	65 000
Fax machine	15 000	-	15 000
Paper cutting machine	150 000		150 000
A. Total Fixed Assets	2 810 000	1 000 000	3 810 000
Pre-startup Expenses			
Market survey expenses	18 000	-	18 000
Business registration fee	1 500	-	1 500
To obtain the electricity supply	25 000	-	25 000
Preparing the business plan	22 000	-	22 000
Inauguration ceremony	15 200	-	15 200
B. Total pre-startup expenses	81 700	-	81 700
Working capital for business activities	350 000		350 000
C. Total working capital requirement	350 000	-	350 000
Total investment (A+B+C)	**3 241 700**	**1 000 000**	**4 241 700**

Accordingly, Mr. Sarath Siriwardene requires Rs. 4 241 700 as the total investment. Out of that Rs. 1 000 000 will be obtained as a bank loan. Owner's building which is worth Rs. 2 000 000 will be given to the business and Rs. 1 241 700 will be invested from his personal money.



Activity 02

Some of the information of the proposed garment factory of Mr. Muhammad Iththikar is given below. Based on the information, prepare the total investment plan for "Iththikar Garments".

Item	Cost (Rs.)
To buy 10 sewing machines	400 000
To obtain electricity to the building	25 000
To get the telephone supply	23 000
To buy office equipments	63 000
Market survey expenses	4 500
To buy a cloth cutting machine	200 000
To fix the water supply	11 000
To prepare the business plan	15 000

It is expected to use the building which belongs to Mr. Muhammad as the business premises. The value of the building is Rs. 1 800 000.

Further he intends to provide 05 sewing machines which are already with him to the business. The total value of the machines are Rs. 200 000.

He expects to obtain a bank loan of Rs. 600 000 to buy additional new 5 sewing machines and the cloth cutting machine.

Cash in hand required to conduct the daily business activities should be Rs. 400 000.

5.4 Statement of forecasted (budgeted) cash inflows and cash outflows

Statement that is prepared including the proposed cash inflows to and outflows from the business during a specific future period is known as statement of forecasted (budgeted) cash inflows and cash outflows. The amount of cash available within a business at the end of a certain period can be calculated by preparing this statement. This shows the cash inflows to the business and outflows from the business during a specific future period and the cash balance at the end of that specific period.

Cash inflows

Following are recorded as cash inflows of a business.

- ☆ Capital invested by the owners
- ☆ Obtaining bank loans
- ☆ Receiving cash from cash sales
- ☆ Receiving cash from debtors
- ☆ Income received by hiring buildings or other assets
- ☆ Investment income and interest received by investing the money of the business and any other inflow of cash into the business

Cash outflows

The cash outflows of a business is determined based on the cost estimations included in the production, marketing, administrative and financial plans of the business. Accordingly few reasons for the outflow of cash from the business are given below.

- ☆ Buying fixed assets
- ☆ Buying inventories of raw materials or merchandise
- ☆ Paying for electricity, telephone, insurance, transportation, rental, and employee salaries
- ☆ Payments for the creditors
- ☆ Paying loan installments and interest
- ☆ Paying taxes

Cash balance

The difference between the cash inflows and outflows during a specific period or the balance available at the end of the said specific period is known as cash balance.



Figure 5.3

Study how a forecasted cash inflow and outflow statement (forecasted cash flow statement) of a business is prepared for a future year.

Examples :-

Some of the forecasted information for the next year extracted from the business plan of Bhasitha's business who expects to start a stationary shop are given below.

	Rs.
Bhasitha's money invested in the business	1 000 000
Expected sales revenue	3 000 000
Obtaining bank loans	500 000
Paying building rental	120 000
For the electricity bill	12 000
Payment for the creditors	18 000
Paying employee salaries	300 000
Obtaining trade inventories	2 300 000
Paying loan installments and interests	228 200
Buying 08 glass cupboards	300 000
Fixing bookshelves	250 000
Buying office equipment	60 000
Incurring pre-operational expenses	48 000
Receiving cash from debtors	100 000

Basitha’s business

Forecasted cash flow statement for the first year

Description	Rs.	Rs.
Cash inflows		
Owner’s investment	1 000 000	
Bank loans	500 000	
Expected sales revenue	3 000 000	
From debtors	100 000	
Total cash inflows		4 600 000
Cash outflows		
Building rental	120 000	
Electricity bill	12 000	
Paying creditors	18 000	
Employee salaries	300 000	
Obtaining trade inventories	2 300 000	
Loan installments and interest payments	228 200	
Buying 08 glass cupboards	300 000	
Fixing bookshelves	250 000	
Buying office equipments	60 000	
Pre-operational expenses	48 000	
Total cash outflows		3 636 200
Cash balance at the end of the period		963 800

Activity 03

Following are the information extracted from the business plan of Roshitha's business for the following year. Based on the information prepare the forecasted cash flow statement. Show the cash balance at the end of the year.

Description	**Rs.**
Money invested by the owner	500 000
Bank loan obtained	250 000
Sales revenue	1 860 000
Buying equipments	120 000
Buying tables and chairs	300 000
Expenses for decorating the office	60 000
Cost of business plan preparation	5 000
Buying goods for sale	1 100 000
To pay the electricity bills	20 000
To pay the water bills	25 000
To pay the loan installments	55 000
Business registration fee	1 500

5.5 Calculating the business results

By conducting a business an entrepreneur expects to earn profits. If the profit of the business at the end of a specific period is to be identified at present, such expected profit should be forecasted by considering the expected income and expenses.

The forecasted income statement included in the financial plan (a main component of a business plan) fulfills the above requirement of the entrepreneur.

The forecasted income statement includes the following things.

- ✫ Estimated total income
- ✫ Estimated total expenses
- ✫ Expected business result

Estimated total income

The total value of the products or services expected to be sold by a business during a specific period of time is known as estimated sales income. Both the cash sales and the credit sales should be considered here. Similarly, if there are other income, a business expects to earn, they should also be included here. Accordingly, the total expected income includes the sales income and other income expected to be earned during the period.

Estimated total expenses

All the expenses expected to incur for the products and services which are to expected to be sold during a specific period of time is known as estimated total expenses. When calculating this expenditure, production cost and non-production cost should be stated separately.

Production cost

Expenses that directly contribute to the production of the business come under this category. When calculating the production cost following cost should be considered.

- Material cost
- Labour cost
- Other costs (overhead cost)

Non production cost

Expenses that do not directly relate to the production activities of the business come under this category. They are;

- Selling and distribution expenses included in the marketing plan
- Administrative expenses included in the administrative plan
- Financial expenses included in the financial plan (e.g. loan interest)

Expected business result

Expected business result can be calculated by deducting the estimated total expenses from the expected total income. This can be a profit or a loss. The decision to start the business can be made, if the result is a profit and if the investor is satisfied that the profit is adequate for the money invested.



Figure 5.4

If the result is a loss, it guides the entrepreneur to make a decision on starting the business.

Study how a statement is prepared that calculates the end result of a business for a future year

Examples :-

Let's calculate the final or the end result of the below mentioned business - "Sirisara Confectionary" for its first year by using the information available in the business plan.

Item	**Value Rs.**
Sales income	3 000 000
Raw material cost	1 500 000
Labour cost	300 000
Other production cost	285 000
Selling and distribution expenses	60 000
Administrative expenses	72 000
Financial expenses (loan interest)	24 000

"Sirisara Confectionary"
Statement of expected end result calculation for the first year

	Rs.	Rs.
Sales income		3 000 000
Less - Total production cost		
Raw material cost	1 500 000	
Labour cost	300 000	
Other production cost	285 000	(2 085 000)
Less - Total non-production cost		
Selling and distribution expenses	60 000	
Administrative expenses	72 000	
Financial expenses	24 000	(156 000)
Net Profit		759 000

Accordingly the entrepreneur of "Sirisara Confectionary" expects to earn a net profit of Rs. 759 000 by the business operations in the first year.

Activity 04

Amal Fernando expects to start a business which sells ornamental plants. Some of the information extracted from the business plan prepared for his nursery are given below. Based on the information provided, calculate the expected result of Amal Fernando's business.

Item	**Rs.**
Expected sales income	1 800 000
Raw material cost	320 000
Labour cost	360 000
Other production expenses	220 000
Selling expenses	48 000
Administrative expenses	36 000
Financial expenses	24 000

Overall business plan

By now you have studied the marketing plan, production plan, administrative plan and financial plan which are the elements of a business plan. Using the data of those plans, a business prepares the overall business plan.

Study how an overall business plan is prepared according to a simplified format using the description given below.

Udara Leather Products

Udara Maduwanthi who lives in Sandhaeliya -Anuradhapura decided to start a business which produces purses unique to each school containing the colors of the school and their badges.

She decided to start the production activities targeting the area where she lives at first. The market survey conducted by her revealed that there are approximately 60,000 students in the area and nearly 50% of them are female students. Further it was found that every female student buy at least one purse for a year.

Moreover, it was identified that sellers of school items sell different types of purses for competitive prices from Rs. 100-Rs. 200. Sellers have introduced purses which contain stickers of different kinds of pictures to attract the minds of the students.

Details of the competitors are as follows.

Competitor	Product	Market share
Malki school equipments	Purse	60%
Sisira school equipments	Purse	40%

The estimated raw material cost of a purse is as follows.

	Rs.
For artificial leather	25
For other components	7
To sew the badges (logos)	20
	52

It was decided to recruit a girl with G.C.E. A/L and of 05 years working experience to cut the blocks of leather for the purses and to keep her in the position of foreman. Her monthly salary is Rs. 20 000. She is responsible to supervise the production process.

Further it is expected to recruit two female machine operators with G.C.E .O/L and 06 months working experience for a monthly salary of Rs. 15 000.

Getting orders, marketing and management activities are planned to be done by Udara herself. She expects to get a monthly salary of Rs. 25 000 for that.

Other expected monthly expenses are as follows.

	Rs.
Factory electricity	2 500
Telephone charges	1 200
Transportation expenses	5 000

A three wheeler should be bought for Rs. 360 000 to bring the raw materials and to deliver the products. The expected life time of the three wheeler is ten years. Two sewing machines will be bought for Rs. 60 000 each to sew the purses and their useful life is estimated to be 05 years.

It is proposed to use her own building which worth Rs. 1 000 000 as the production Centre. A loan of Rs. 500 000 is expected to be obtained from the Entrepreneurship Development Bank under 10% annual interest and the repayment period is 05 years. The loan installment for the first year is Rs. 120 000.

Following expenses are expected to be incurred before the business start-up.

	Rs.
Registration fee	1 200
For electricity	7 000
Inauguration day expenses	5 000

Working capital requirement is estimated as Rs. 75 000.

Products will be available for sale at school sales shops and a purse is given to a shop for Rs. 170. It is expected to sell the purses to 50% of the students with in the first year.

Business Plan

1. Executive Summary

1.1 Business name and Industry :-

1.2 Most important points of the marketing plan :-

1.3 Most important points of the production plan :-

1.4 Most important points of the administrative plan :-

1.5 Most important points of the financial plan :-

1.6 Specialty or the uniqueness of the business :-

1.7 Goals and objectives of preparing and presenting the business plan :-

2. Marketing Plan

2.1 The product

2.2 Target buyers

2.3 Target market area

2.4 Market relating to the expected product

Product	Number of target consumers	Consump-tion pattern	Monthly demand		Annual demand	
			Quantity	Value Rs.	Quantity	Value Rs.

2.5 Supply analysis of the competitors

Main competitors	Products and services supplied	Approximate market share of the competitors

2.6 Target market share

Product or service	Existing market share	Planned market share

2.7 Marketing strategies of the competitors

Marketing mix	Strategies
Product	
Price	
Place	
Promotion	

2.8 Proposed marketing strategies of the entrepreneur

Marketing mix	Strategies
Product	
Price	
Place	
Promotion	

2.9 Forecasted annual sales

Product	Expected monthly sales (quantity)	Unit price Rs.	Average monthly sales value Rs.	Annual sales value Rs.

2.10 Marketing expenses

Item	Average monthly selling expenses Rs.	Annual selling expenses Rs.

2.11 Marketing Fixed assets

Item	Value Rs	Annual depreciation Rs.
		1st year

03. Production plan

3.1 Calculation of total production cost

Item	Monthly requirement	Unit price Rs.	Total expenditure Rs.
Total production expenditure			
Unit cost			

3.2 Production Fixed assets

Item	Value Rs.	Annual depreciation Rs.
		1st year

04. Administrative plan

4.1 Details of the entrepreneurs

Name of the entrepreneur :- ……………………………………..
Address :- ……………………………………..
Qualifications :- ……………………………………..

4.2 Organizational structure
Main positions and responsibilities of the organizational structure

Position	Function	Responsibilities	Qualifications

4.3 Administrative expenses

Item	Expenses (monthly) Rs.	Expenses (Annual) Rs.

4.4 Administrative Fixed assets

Item	Value (Rs)	Annual depreciation Rs.
		1st year

05. Financial plan

5.1 Pre–startup activities and cost

Pre–startup activities	Expenses Rs.

5.2 Total Investment Estimate

	Proposed investment		Total Investment Rs.
	Provided by the owner Rs.	Bank loans Rs.	
Fixed Assets			
Total fixed assets (A)			
Pre-startup cost			
Total pre-startup cost (B)			
Working capital			
Total working capital requirement (C)			
Total investment (A+B+C)			

5.3 Estimated (budgeted) cash flow statement

	Rs.	Rs.
Cash inflows Less - Cash out flows		
Cash balance at the end of the period		

5.4 Statement of expected result calculation

	Rs.	Rs.
Sales income Less – Total production cost Less - Total non- production cost		
Net profit		

Let's Answer



01. What is a financial plan?

02. Give examples for pre-startup expenses.

03. State the items that are included in an investment estimate.

04. Provide some examples for cash inflows and cash outflows of the business?

05. Provide some examples that are included in an estimated cash flow statement?

Chapter 06

Business Organizations

This chapter discusses the followings.

6.1 Introduction to business organizations
6.2 Classification of business organizations
6.3 Sole proprietorships
6.4 Partnerships
6.5 Incorporated companies

* Franchises



6.1 Introduction to business organizations

You have already gained a good understanding about the preparation of business plans. The next step is selecting a suitable type of business organization in order to implement the plan. This chapter aims to give you the required guidance with this regard. At present different businesses help people to satisfy their needs and wants. Accordingly, businesses are related with all daily activities of people. The influence of businesses can be seen not only when we fulfill our daily requirements like foods and clothes, but also when satisfying our all other day today needs and wants.

Example :-

Products like books, pens and pencils that you use

Different organizations that provide the services like banking and insurance

Activity 01

Name some of the day to day wants of your home and state the business organizations that help to satisfy them.

No.	Want	Business organization
01.		
02.		
03.		
04.		
05.		

After doing the above activity, you can understand that it is necessary to get the assistance of different parties in order to fulfill your needs and wants and you are clear that business organizations are behind all these activities. To start and run businesses, individuals should organize as groups. Thus, units comprise of group of people working together for the purpose of achieving a common goal are called organizations. Accordingly, different business organizations have been established at present in order to satisfy the needs and wants of people.

Entities that engage in production and distribution of goods and services with the aim of earning profits, achieving social wellbeing or fulfilling any other objective while using limited resources to satisfy human needs and wants are called business organizations.

Some of the common characteristics that can be seen in every business organization are given below.

- Having an objective
- Using limited resources
- Having an organizational structure
- Engaging in an economic activity
- Having a group of people who work together (owners, employees etc.)

6.2 Classification of business organizations

Today different business organizations have been established to supply goods and services for the purpose of satisfying needs and wants of people.

These different types of business organizations can be classified based on different criteria. Here, we consider only the following criteria which are often used.

- Ownership
- Objective

Classification of business organizations based on ownership

The ownership of the business is explained based on the way the financial resources are provided to start the business. Parties that deploy resources in the business are called owners. Owners enjoy the profits or losses earned by a business.

Based on ownership, business organizations are classified as follows.

- Private sector businesses
- Public sector businesses

When financial resources are deployed in a business by an individual or group of individuals, the ownership of the business is with the private sector. Then they are called private sector businesses.

Similarly when the financial resources are provided by the government, the ownership is with the government and they are called public sector organizations.

Classification of businesses based on the ownership is given below.

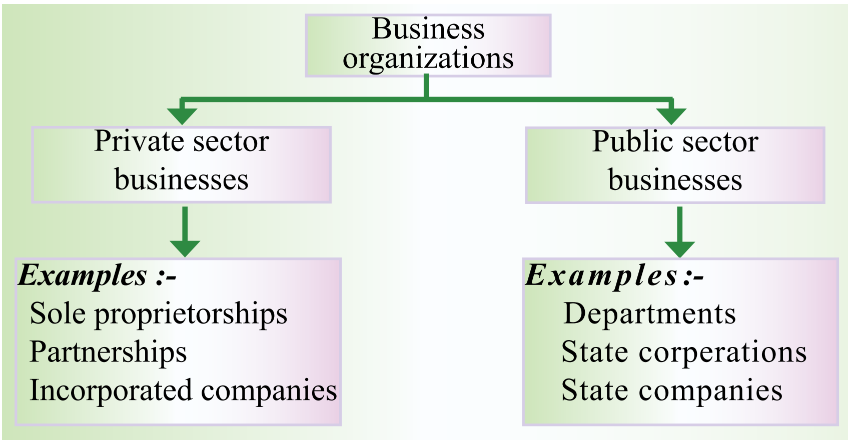


Figure 6.1: Classification of businesses based on ownership

Classification of business organizations based on their objectives

Entrepreneurs conduct businesses with the aim of achieving different objectives. Businesses can be classified as follows based on their objectives

- Profit oriented businesses
- Not-for profit organizations

If a business is carried out by an entrepreneur with the objective of gaining profit, such businesses are called profit oriented business organizations.

Examples :-

Private hospitals
Private banks
Super markets
Garment firms

Similarly, the objective of some businesses is not to earn profits but to provide benefits to the society. Such organizations are called not-for profit organizations.

Examples :-

Red Cross Society
Lions club
Sarvodaya
Sports clubs

Profit oriented businesses and not-for profit organizations are operating under both the private and the public sectors. Figure 6.2 depicts how the business organizations are classified based on the objective.

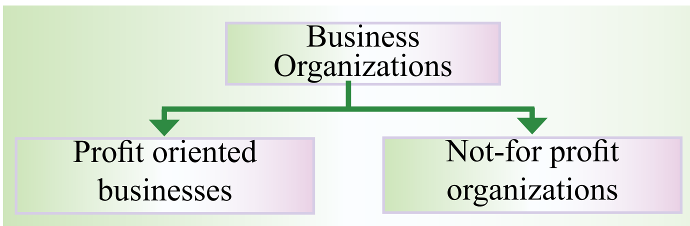


Figure 6.2: Classification of businesses based on the objective

Activity 02

State few organizations from which you fulfill your daily needs and fill the following table relating to those organizations.

No.	Organization	Objective	Ownership
01	Super market	Profit	Private
02			
03			
04			
05			

After learning the above information, we hope that you have understood that businesses can be classified based on different criteria. An entrepreneur should be clever enough to select the most suitable type of business organization among these different types of business organization.

We discuss only the following types of business organizations which are classified based on ownership.

- ✰ Sole proprietorships
- ✰ Partnerships
- ✰ Incorporated companies

6.3 Sole proprietorships

At present sole proprietorships can be identified as one of the most common business types that many entrepreneurs start. These are also known as single owner businesses. Since entrepreneurs can easily start these businesses with a small amount of capital, they can be seen in almost all the countries in the world.



Figure 6.3

A business started, owned and run solely by the owner is known as a sole proprietorship.

Main characteristics of sole proprietorship.

Some of the main characteristics of sole proprietorships are given below.

✰ Capital is provided by the owner

An initial capital is required to get the different resources that are required to start the business. Investing the capital solely by the owner is a characteristic of sole proprietorships. Capital can be found through different ways including owners' savings, funds given by relatives or friends, a loan obtained by selling or mortgaging his/ her assets or a loan taken from a financial institution.

- ✰ Ownership rests with a single person

Since capital required for the business is invested by a single person, the ownership too is with that person.

- ✰ Profits or losses are borne alone

The profit earned by the business belongs to the owner. Similarly, if the business incurs losses, that should be borne by the owner alone.

- ✰ No continued existence

The continuity of the business can stop due to such reasons as death of the owner, insanity or any other passivity.

- ✰ Unlimited liability of the owner

Liability means the obligations to repay the loans and other advances obtained from external parties. In sole proprietorships, liability of the owner is unlimited. this means that even the private properties of the entrepreneur may have to be sacrificed to settle the liabilities of the business.

- ✰ Registration is not mandatory

It is not mandatory to register a sole proprietorship. Yet registration of the business is very useful. If it is registered, it will be registration of the business name. The business name will be registered under the Business Name Registration Ordinance, No.06 of 1918 at the divisional secretariat of the respective provincial council.

- ✰ No legal personality

This means that a sole proprietorship cannot conduct any legal operations by its own business name. If required to do so, it should be done by the name of the owner.

Examples :-

Filing legal cases, obtaining bank loans, purchasing of vehicles should be done not by the name of the business but by the name of the owner.

- ☆ Business can solely be led at owner's discretion

  Examples :-

  Hiring and firing of employees
  Expanding the business operations
  Making decisions regarding the price of the products

Starting Sole Proprietorships

Though starting a sole proprietorship is easy, there are few steps which should be followed practically by an entrepreneur. They are given below.

- ☆ Obtaining the following applications from the Divisional Secretariat from the respective division where the business is expected to be started.

  1. An application form to register the business name of a sole proprietorship

  2. An application form to obtain the required report from Grama Niladharee regarding the registration of the business name

- ☆ Handing over the certified report of the Grama Niladharee and the duly completed application form along with the registration fee to the Divisional Secretary.

After receiving the above documents along with the due payments, Divisional Secretary will consider them, and if satisfied will register the business and issue the Certificate of Registration of Business Name.

Activity 03

Obtain the forms required to start a sole proprietorship.

01. Observe the facts which have been requested in these forms.

02. Discuss with your friends and gather data required to fill these forms.

Advantages of sole proprietorships

- ☆ Can be started with a small amount of capital
- ☆ Can get the assistance of the members of the family
- ☆ Convenience of starting
- ☆ Can make independent decisions

- Ability to improve the business with the dedication and the enthusiasm of the entrepreneur
- All the profits belong to the owner
- Privacy of the business information is secured
- Impact of rules and regulations is minimal

Limitations of sole proprietorships

- Sources to get the required capital are limited
- No separate legal identity
- Unlimited liability of the owner
- No continuous existence
- Losses should be solely borne by the owner
- Individual decisions of the owner may be unsuccessful

Activity 04

Saman started a business enterprise using a small amount of money he had saved. He was happy as he didn't have to make much effort and spend much time for the initial activities in the establishment of the business. He was committed to the business and worked hard.

Though different difficulties arose, he gave quick solutions to them converting the issues in to his experiences and conducted the business activities continuously. Once Saman had to appear before the courts as a customer filed a case against one of his employees for a mistake done by the employee. However, Saman was able to continue with his plans and run the business profitably.

Though Saman wanted to improve his business further, he realized that obtaining the required additional capital is difficult. Even though there was the possibility of obtaining bank loans further, he was not interested to do so since there was the risk of settling them.

Though Saman got sick due to the heavy work load of the business, he always tried his best to carry on the business activities successfully.

01. To which category does the above business belongs to?

02. Give benefits and limitations of that type of business organization.

6.4 Partnerships

Partnerships too have received an important place in the economy as a type of a private sector business organization. The ability of entrepreneurs to engage in business activities together than individually has been a major reason for the establishment of partnerships. Similarly partnerships have emerged owing to the requirements of getting more capital, making right management decisions, getting the involvement of individuals with different skills, etc. It can be seen that people who are engaged in the professional fields such as accounting, law, tax and medicine and the parties who do production and trade organize as partnerships.

Partnership Ordinance of 1980 affects the partnerships conducted in Sri Lanka. According to this Ordinance, partnerships are defined as follows.

A relationship between two or more individuals with the objective of earning profits is known as a partnership.



Figure 6.4

Main characteristics of partnerships

Special characteristics of a partnership are given bellow.

☆ Number of partners

In order to start a partnership there should be minimum of two partners and the maximum number is limited to 20.

☆ Existence of an agreed (stipulated) relationship among partners

A partnership is started according to the agreement arrived by the partners. This agreement can be written, oral or implied. The agreement among the partners regarding the partnership is known as the partnership agreement.

☆ No continued existence

The continuity of the partnership is obstructed due to the change of the partnership agreement or due to the death, insanity or bankruptcy of a partner.

✰ Unlimited liability of the partners

Partners are unlimitedly liable for the liabilities of the partnership. Accordingly, partners may have to sacrifice their private properties to pay off the debt of the partnership if the assets of the partnership are not sufficient when settling its liabilities.

✰ No separate legal identity

Since a partnership is not considered as a legal person before the law, it cannot perform legal activities in its business name. Hence, the legal matters of the partnership should be done not in its business name but using the personal names of the partners.

✰ Not mandatory to register a partnership

It is not mandatory to register a partnership. Yet many advantages can be obtained by registering a partnership. Here the business name of the partnership will be registered. Registration can be done under the Business Name Registration Ordinance, No 06 of 1918 at the Divisional Secretariat of the respective provincial council.

✰ Every partner will be a representative (or an agent) of other partners

Every partner is liable for the affairs done by each partner. Hence, every partner is considered as a representative of other partners.

Starting a partnership

A partnership can be started in the same way as a sole proprietorship. Yet, since there may be a maximum up to 20 partners, it might face different practical issues when running the business. Though a partnership agreement can be arrived at in writing, orally or by implication (implied), it is more suitable to conduct the partnership on a written agreement.



Figure 6.5

This written agreement is known as the partnership deed.
It is important to have the stipulated agreement in writing in order to minimize the practical issues that may arise in a partnership when doing business.

Some of the factors included in a partnership agreement are given below.

- ☆ The method of capital contribution by the partners
- ☆ The way of sharing profits and losses
- ☆ The way how the partners contribute to the affairs of the business
- ☆ Paying salaries to the partners
- ☆ Obligations and rights of partners
- ☆ Information relating to ceasing / dissolving the partnership
- ☆ Arrangement of paying interest to the partners for the loans given to the business other than the capital
- ☆ Other common agreements regarding the conduct of the partnership

Advantages of partnerships

- ☆ Convenience of commencing
- ☆ Can raise more capital
- ☆ Can take collective decisions
- ☆ Liabilities are shared among the partners
- ☆ Can utilize different skills of the partners

Limitations of partnerships

- ☆ Unlimited liability
- ☆ No separate legal identity
- ☆ Possibility of arising conflicts among partners
- ☆ Profits being shared among partners
- ☆ No continued existence
- ☆ Consequences of a mistake done by a partner can affect other partners

Activity 05

Amal Piyarathne and Kamal Jayarathne started a partnership to sell garments and agreed to register it under the name of "Rathna Dress". Further they agreed to put Rs 50,000 by each and to equally share the profits and losses of the business. Kamal decided not to engage in business activities since he was doing another job and it was agreed that Amal should attend to the marketing affairs of the business for a monthly salary of Rs. 20,000. Moreover, they decided to pay an annual interest of 10% for the extra funds invested in the business other than the capital. Similarly they decided that in case if a new partner joins the business, it should be done with the consent of both partners.

Prepare a partnership deed for the partnership, "Rathna Dress" according to the above information.

6.5 Incorporated companies

Incorporated companies can be identified as a popular form of business organization which mainly represents the private sector category. Companies Act No. 07 of 2007 of Sri Lanka affects the commencement of an incorporated company.

Since even a single person can start an incorporated company according to the Companies Act of Sri Lanka, most of the entrepreneurs are interested in starting this type of businesses. Receiving the status of a legal personality is another reason for the popularity of incorporated companies.

An incorporated company can simply be defined as follows.

Incorporated companies are business organizations which are registered under the Companies Act No. 07 of 2007 and which have a separate legal identity and a continued existence.

Characteristics of incorporated companies

Some of the basic characteristics of incorporated companies are given below.

- ✫ Incorporated under the Companies Act

Every company should be registered under the Companies Act No. 07 of 2007. It is done by the Registrar of Companies of the Department of Registrar of Companies.

- ✫ Raising capital through shareholders

The capital required for an incorporated company is raised by issuing shares.

- ✫ Limited liability of the shareholders

In an incorporated company, the liability of the shareholders regarding liabilities is limited. This means that the liability of the shareholders is limited to the value of the shares they had bought from the company.

- ✫ Management of the company is done by directors

The management of a company is done by directors selected and appointed by the company shareholders who are the owners of the company too.

- ✫ Having a continued existence

An incorporated company is a separate entity from its owners. Hence the death, bankruptcy or full or half passivity of a shareholder does not obstruct the continuation of the company.

- ✫ Have a separate legal personality

Companies are incorporated under the Companies Act No 07 of 2007. Hence, an incorporated company is considered as a legal person and entering in to contracts, acquiring assets, obtaining loans from financial institutions etc., can be done in the name of the company.

Types of companies which can be started according to the Companies Act No 07 of 2007 are given below in the figure 6.6.

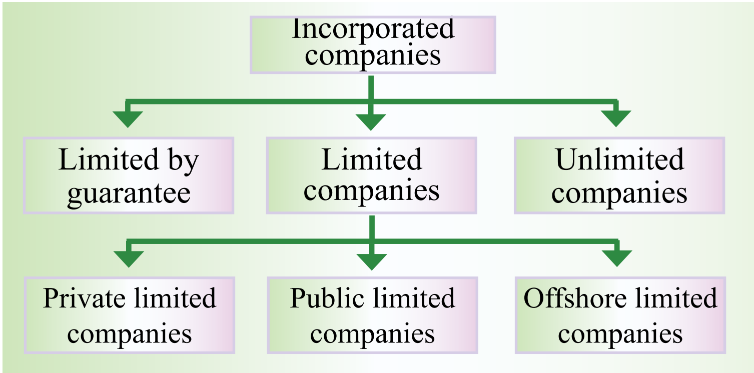


Figure 6.6 Types of companies

According to the Companies Act, different types of companies can be started. Only private limited companies are discussed here. Most of the small and medium sized entrepreneurs prefer private limited companies for their businesses.

Private limited companies

Private limited companies can be identified as a business organization which is popular among the Sri Lankan entrepreneurs at present. Ability of even a single person to start, having a legal personality, ability to get the involvement of family members, friends and relatives, etc., for the commencement are the main reasons for this popularity.

Companies Act of No. 07 of 2007 has given a definition to private limited companies and it can be stated as follows.

Companies of which the number of shareholders are limited to 50, shares cannot be offered to the public and, liability is limited are known as private limited companies.

Activity 06

List private limited companies that operate in each of the following fields in Sri Lanka.

No.	Field	Private companies
01.	Tourism	
02.	Education	
03.	Trade	
04.	Manufacturing	
05.	Agriculture	
06.	Construction	

Starting a private limited company

To start and conduct a private limited company, it should be registered under the Companies Act No 07 of 2007. For the registration, following four documents should be submitted to the Registrar of Companies along with the application form.

01. Statement regarding the name of the company

Companies Act of No.07 of 2007 includes provisions that should be followed when selecting a name for a limited company.

Examples :-

A name that is identical or similar to a name currently in use should not be used as the name of the company

Words like Sri Lanka, State, and President should not be used in the company's name

02. Articles of Association

The statement which includes information relating to the general administration of a limited company. According to the Companies Act of No. 07 of 2007. Following information are included in the Articles of Association.

The objectives of the company
The rights and obligations of shareholders of the company
The information relating to management and administration of the company

03. The statement specifying the consent of each of the initial director to act as directors of the company

04. The statement specifying the consent of the initial secretary to act as the secretary of the company

If the Registrar of the Companies is satisfied with the documents submitted, the company will be registered under the Companies Act of No 07 of 2007. After the registration, the Registrar will issue the Certificate of Incorporation.

Characteristics of a private limited company

Some of the main characteristics of private limited companies are given below.

- Cannot invite the general public to purchase the shares of the company

Buying the shares of a private limited company could be done only by the members of the family, friends and relatives. Shares of these companies cannot be offered to the public.

- Minimum number of shareholders is one and maximum is 50

Since, based on the companies Act, even a single person can start a private limited company, the minimum number of shareholders of a private limited company will be one. Similarly, the maximum number of shareholders of such companies has been limited to 50 by the Companies Act.

- Managed by a board of directors

Management of limited companies is done by a board of directors. According to Companies Act, there should be at least one director in a limited company to manage the company affairs. Yet the Companies Act does not specify the maximum number of directors.

- Has a legal personality

- Has a continued existence

- ✰ Accounting and auditing is mandatory
- ✰ Liability is limited

Advantages of private limited companies

- ✰ Even a single person can commence
- ✰ Can commence by getting the involvement of the family members, friends and relatives.
- ✰ Being formal and having a high recognition
- ✰ Limited liability
- ✰ Having a separate legal identity
- ✰ Having a continued existence

Limitations of private limited companies

- ✰ Inability to raise more capital since the shares are issued to the members of the family, friends and relatives
- ✰ Having mandatory rules, regulations and procedures
- ✰ Opportunity to get the involvement of many people is limited since the maximum number of shareholders is limited to 50

Franchises

Franchises can be identified as a business concept which has emerged to face the rapidly changing business environment. This gives the opportunity to an entrepreneur to join the large scale businesses and carry on the business activities. These businesses are operated as sole proprietorships, partnerships or incorporated companies.

A form of business organization to which the power is granted by an existing business which sells a product or service, to sell the said product or service in a specific market area under its trade name are known as franchises.

Starting a franchise

At present, franchises are operating under different forms. However, the basic structure of any franchise is given below.

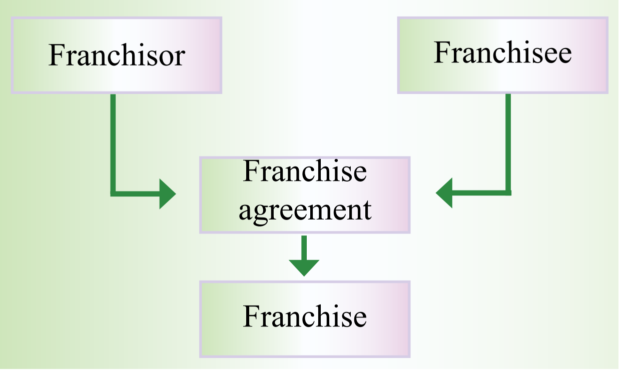


Figure 6.7: Starting a franchise

There are two main parties who are involved in a franchise.

- Franchisor

  The party that allows to sell its products in a specific market area under his/her name. The objective of this party is to expand the market without investing capital and to earn profits.

- Franchisee

  The party that gets the permission to sell goods or services in a specific market area using the brand name of the franchisor.

In order to enter in to this type of a business relationship, the franchisor and the franchisee should enter in to a stipulated (agreed) relationship. This is known as franchise agreement. Common agreements regarding the commencement and the conduct of the franchise are given in the franchise agreement.

Examples for some such common agreements are given below.

Examples :-

Services provided by the franchisor to franchisee

Products that are being allowed to sell

The value of the payment made by the franchisee to franchisor

As the result of the franchise agreement entered in to by the franchisor and the franchisee, franchises are formed. Depending on the permission granted by the franchisor to sell the products and services in his/her name to the franchisee, charges have to be made. This charge is known as royalty.

Basic characteristics of a franchise

Following basic characteristics can be seen in franchises.

- ✰ Involvement of two parties as franchisor and franchisee

Franchisor grants the permission to sell the goods and services in a specific market area in its trade name. Based on the permission granted, franchisee sells the goods and the services in a specific market areas under the relevant trade name. Accordingly, two parties as franchisor and franchisee are involved in a franchise.

- ✰ There is a stipulated agreement between the franchisor and the franchisee.

Franchises are formed depending on the agreement entered in to by the franchisor and franchisee. This written agreement is known as the franchise agreement.

- ✰ Franchisee makes a payment to the franchisor.

Franchisor allows the franchisee to sell the goods and services in the name of franchisor for a payment. Details regarding this should be included in the franchise agreement.

Advantages of franchises

There are few benefits that both the franchisor and the franchisee can obtain in common due to franchises.

Benefits to the franchisor

- ☆ Opportunity to expand the business activities to other markets
- ☆ Ability to enjoy large scale benefits by minimizing the pressure of maintaining a huge staff
- ☆ Franchisor receives an income

Benefits to the franchisee

- ☆ Franchisee gets an opportunity to earn profits using the goodwill of the franchisor
- ☆ Franchisee can easily enter to a popular market using the goodwill of the franchisor
- ☆ Franchisor provides management training to franchisee

Limitations of franchises

To the franchisor

- ☆ Due to the unsuccessful business dealings of the franchisee, the goodwill of the franchisor can be damaged
- ☆ Franchisor has to obey the legal bonds and the limitations that arise when conducting the business activities of a franchise

To the franchisee

- ☆ Franchisee has to incur the legal charges, bank charges, establishment cost etc. to get the franchise
- ☆ Franchisee cannot work independently due to the control of franchisor
- ☆ Franchisee may have to pay a high royalty and other charges to franchisor

Activity 07

Few statements specifying the characteristics of different business organizations are given below.

01. Businesses having a continued existence and a separate legal identity that are owned by a single person
02. Businesses with an unlimited liability that are conducted by a combination of few people.
03. Businesses having an unlimited liability and no separate legal identity that are conducted by a single person

Read the above statements carefully and answer the following questions.

01. State the type of business organization that is explained by each of the statements.
02. Suggest business names to each of the business organizations.
03. Name laws, ordinances, acts etc. that are applicable to each business organization.

Activity 08

Name few franchises that are operating in Sri Lanka.

Let's Answer

01. What are the common characteristics that can be seen in business organizations?
02. What are the basic characteristics of a sole proprietorship?
03. State the facts that can be included in a partnership agreement.
04. Classify business organizations according to the ownership.
05. Name the parties that are involved in a franchise agreement.



Chapter 07

Entrepreneurial Culture

This chapter discusses the followings.

7.1 Introduction to culture

7.2 Introduction to entrepreneurial culture

7.3 The need for the creation of an entrepreneurial culture

7.4 Social and economic factors conducive for the emergence of an entrepreneurial culture

7.5 Social factors against entrepreneurship

7.6 Role of women in entrepreneurship

7.7 Business ethics and social responsibility

7.8 Incentives available for entrepreneurs



7.1 Introduction to culture

At the beginning of human civilization it can be seen that man has been working with different parties of the society as well as with the various cultures in satisfying their needs and wants. The values of a culture shape the people. Culture can be explained as beliefs, values, attitudes, behavior patterns, different ideas, customs and norms that exist among people of a society which are unique to them. Depending on the characteristics of these cultural elements, the behavior of the people will be decided.

Example :-

In Sri Lankan society, people from different races like Sinhalese, Tamils, Muslims and Burgers are living together and these ethnic groups possess values, beliefs, attitudes and different behaviors which are unique to them.



Figure 7.1

7.2 Introduction to entrepreneurial culture

Entrepreneurial culture is a collection of elements like special behaviors, attitudes, beliefs, ideas, behavior patterns, rites, rituals, and customs which are unique to entrepreneurs.

A person living in the entrepreneurial society inherits entrepreneurial traits. That is the person who thinks positively, accepts risks creatively and does innovations. Moreover, such people are dissatisfied with the status quo and try to change the prevailing condition. Further those people are very sensitive to the environment and owing to that sensitivity they have the capability of identifying the opportunities and chasing them. As soon as the opportunities are identified, they exploit them.

7.3 Need for the creation of an entrepreneurial culture

Most of the countries in the world have developed due to the influence of cultural and social forces. Since efforts are being taken to develop Sri Lanka, the need for an entrepreneurial culture is highlighted. Solutions to most of the economic and social problems of Sri Lanka can be found through this.

✰ A Solution to unemployment

The unemployment rate of Sri Lanka is considerable. The nature of this unemployment is very complex.

Example :-

Unemployment is high among educated people than the uneducated people.

Unemployment is at a high percentage among the youth aged below 30 years.

A considerable percentage of the workforce of Sri Lanka migrates for jobs.

Unemployment is high among educated women.

Hence the creation of jobs for the workforce of Sri Lanka can be done very easily within an entrepreneurial culture.

✰ Achievement of economic growth

If an economy is to grow, production of goods and services within that economy should increase. Any country can achieve high economic growth through an entrepreneurial culture.

✰ Availability of unused resources

Sri Lanka is a land full of resources. Those resources are not properly utilized at present. There is a possibility of generating products by using those unused resources.

☆ Need for new job creators

It has become difficult to provide jobs for the people compared to the population growth of Sri Lanka. In order to provide jobs, new businesses should be created. As a result, direct and indirect jobs will be created when conducting and developing those businesses.

☆ Need to minimize the inconsistencies in income distribution

Inconsistency in income distribution occurs when a large part of the population of the country receives a small portion of the national income and small part of the population receives a large portion of the national income.

Through popularization of the entrepreneurial culture, entrepreneurial ability of many people will be improved. Through that ability, they can earn profits. Further through the increase in employment, income will flow to the low income earning segment. This will minimize the inconsistencies in income distribution.

7.4 Social and economic factors conducive for the emergence of an entrepreneurial culture

There are many social and economic factors favourable for the emergence of an entrepreneurial culture. Some of them are given below.

☆ Existence of a favorable economic environment

To start and run new businesses, there should be a favourable economic environment for entrepreneurs. Economic factors should be in favour of business activities. This include factors such as low interest rates, increase in income level and favourable foreign exchange rates.

☆ Stable political condition

Having a political authority which makes favourable rules and regulations and policies for the identification of solutions to economic and social problems giving prominence to entrepreneurship while securing it will be very helpful for the emergence of an entrepreneurial culture. Further the political authority should have understood the rewards of entrepreneurship.

☆ Incentives given by government and other organizations

Government and public sector organizations can immensely support the upliftment of entrepreneurship. Entrepreneurial culture can be developed by giving financial and non-financial aids.

Examples :-

Giving tax relief

Giving loans under concessionary conditions

Giving training and advice

Giving aids

Facilitating the meetings of local and foreign buyers

Organizing workshops and exhibitions

☆ Having a family background which encourages entrepreneurship

A family background which encourages entrepreneurship will positively affect the creation of an entrepreneurial culture. Creation of an environment within the family which encourages the development of entrepreneurial capabilities will help the generation of successful entrepreneurs in the future. There is a greater tendency for new generations to choose entrepreneurial activities when their families have family businesses which have existed continuously. This too is a favorable factor which help the emergence of an entrepreneurial culture.

☆ Encouragement given by large businesses

Large businesses often get the help of small and medium scale businesses when conducting their businesses. Hence large businesses always provide different aids to small and medium scale businesses.

Examples :-

Obtaining raw materials and parts required by large companies from small businesses. Transferring some production activities to small businesses (sub contracting)

☆ Ability of obtaining resources

Availability of ample resources and ability to use them for production are factors which encourage entrepreneurship.

☆ Role models

Ability to witness role models of successful entrepreneurs in the society is a major factor which influences the creation of an entrepreneurial culture. Such a guidance will help the entrepreneurs to understand the way they should proceed.

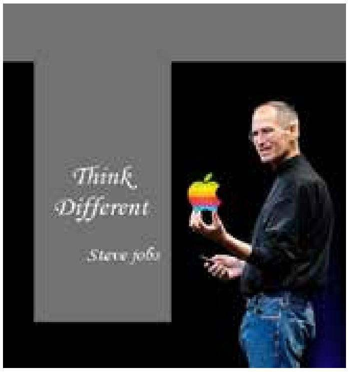


Figure 7.2

'Think differently'

Steve Jobs- founder of Apple Company

☆ Encouragement given by different parties

Encouragement given by the members of the family, school, different societies and friends, makes a favourable impact for the creation of an entrepreneurial culture. At present, newspapers and electronic media can play a big role in this regard.

Activity 01

Identify two successful entrepreneurs in Sri Lanka.

Search their path of becoming a successful entrepreneur from their life stories.

List few lessons that can be learnt from their life stories for a new entrepreneur.

7.5 Social factors which obstruct entrepreneurship

There are many personal rewards of being an entrepreneur. Further, entrepreneurs generate higher rewards for the economy as well. One of the mechanisms of the development of a country is entrepreneurship. Yet many are reluctant to be entrepreneurs.

Let's discuss some social factors that go against entrepreneurship.

- ✰ High recognition given to salaried jobs

The dream of most of Sri Lankans is to do a highly paid job. The reason for this is the tendency of the society to judge the success and the recognition of a person from his or her job. Owing to this attitude, many are used to wait expecting a job by suppressing their entrepreneurial skills.

- ✰ Reluctance to accept risks and challenges

A main characteristic of an entrepreneur is the readiness to accept manageable risks. They should accept the challenge of making their innovations successful. Therefore, the unwillingness of people to accept risk and challenges is another barrier to the entrepreneurship.

- ✰ Lack of encouragement from education

The present traditional education system does not support the generation of people who can see the world with a creative mind, change the status quo and accept risks and challenges. This acts as a barrier for entrepreneurship.

- ✰ Insufficient government support

Weaknesses of policies which are for the development of entrepreneurship in Sri Lanka and insufficiency of incentives given to promote entrepreneurs are barriers for entrepreneurship.

☆ Dependent mentality

Most of the Sri Lankans today have high expectations towards what they inherit from their parents and try to live by spending what they have inherited thereafter. Further, they expect subsidies given by the government. People are reluctant to earn what they need through their own effort. Such mentality acts as a negative factor which demotivates people from being entrepreneurs.

7.6 Role of women in entrepreneurship

'The hand that rocks the cradle, rules the world'

The above saying depicts the unique capability within a woman. They can lead anything towards success due to their creativity, dedication, risk taking ability, intelligence, gumption and flexibility. Owing to above qualities, women today choose to be successful entrepreneurs individually or as groups by identifying new opportunities and converting them to their own business. Further they provide job opportunities to others through their businesses.

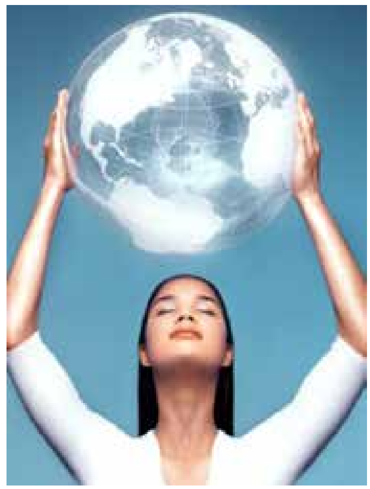


Figure 7.3

Need of women choosing to do businesses

It has become necessary for women to enter into the entrepreneurship field today. There are many reasons for this.

☆ To achieve a satisfactory income level

Since cost of living has increased at present, it has become difficult to run the affairs of a home only with the income of one individual. In order to avoid this, it is necessary for women to earn an income through a business.

☆ Majority of the population being women

When analyzing the composition of population of Sri Lanka, it is evident that women represents the majority. Hence, we can come to the conclusion that there is a considerable women representation within the workforce of Sri Lanka. Hence, women should venture in to business and should give their contribution to uplift the economy of the country.

☆ High unemployment among women

Unemployment rate is high among women. It is a waste of resources of a country. When women enter in to business, their contribution can be used to increase the national production. It will be a solution to unemployment since they create employment for themselves and for the others.

☆ Existence of businesses which need contribution of women

Women's contribution is needed for the businesses which require unique skills of women and qualities like softness and kindness.

Examples :-

Pre-schools, Nursing, Beauty culture, Day care centers, Fashion designing

☆ Trend of women getting higher education

There is an increasing trend among women to get school education as well as higher education. They can contribute for the economic development of the country by starting businesses independently by making use of the higher education they acquired.

Opportunities for women to do business

It is important to have opportunities within the business environment for women to enter into business. Following are some such opportunities which can be seen in the economy of Sri Lanka.

☆ High demand created for services

A high demand for different services has been created in order to fulfill human needs and wants owing to the facts like busy schedules of people, and increase in income levels. Opportunities are open for women to provide those services.

Examples :-

Selling processed foods
Laundry service
Day care service



Figure 7.4

☆ Existence of business opportunities which can be started with a low investment and low risk

Examples :-

Event management – organizing different functions
Organizing local and overseas tours

☆ Unique financial and non -financial incentives being introduced to women

Examples :-

Giving loans at lower interest or interest free
Conducting entrepreneurial training programmers for women

☆ Changing social attitudes regarding women

Examples :-

Recognition given to women in the society has been increased

Acknowledging the economic contribution made by women

Women engaging in activities which were under male dominance



Figure 7.5

Some strengths of women to be an entrepreneur are given below.

- ✰ Ability to use the inherent skills
- ✰ Having self-discipline
- ✰ Ability of balancing the private life and the business activities
- ✰ Ability of using time effectively
- ✰ Having a high level of creativity
- ✰ Ability of building close relationships with different parties and developing trust through that
- ✰ The attitude in the society that women are reasonable and trustworthy
- ✰ Being frugal

Barriers for women entrepreneurship

Women encounter different barriers when they run businesses. Sometimes women refrain from being an entrepreneur due to those barriers. Some such barriers are given below.



Figure 7.6

- ✰ Challenge of balancing the roles of the personal life and the role as an entrepreneur
- ✰ Women have to give prominence to household activities and as a result attention given to the business can go down.
- ✰ Independence of women has not yet been established in the society.
- ✰ Dislike to do businesses is going beyond the tradition.
- ✰ Programs which promote women entrepreneurship are not enough.
- ✰ Difficulties of obtaining capital.

Activity 02

Naveesha was a student in grade 08 and is the eldest daughter of a family which had economic difficulties. Her brother is studying in grade 04. Her father is a labourer and mother is a house wife. The salary of Naveesha's father is not enough for all the household activities. Yet her mother was frugal and responsible enough to spend a greater portion of the income on the education of children and the rest for other needs of the home. Though income difficulties were there, they lived a happy life.

One day Naveesha's father met with an accident and became bed-ridden. As a result, he lost his job. Naveesha regretted a lot seeing the helplessness of her mother who didn't receive any income for the medical treatments of her father and for the household affairs. Naveesha's mother was a very courageous woman and she determined to stand on her own. Naveesha's mother started a small institution which makes handbags utilizing the resources available in her area with the small amount of money she has saved. Naveesha was amazed when she saw the dedication of her mother who worked hard for her business day and night while doing all the work of her father without any negligence.

Her creations were different when compared to the other handbags available in the market. As a result she was able to increase the sales of her products. She was able to give jobs in her business for four women of her area within a short period of time and became a famous and a successful individual of the area. Further, she was selected as a member of the executive committee of the women's society of the area. The fact that she was able to continue the education of her children and earn a satisfactory income to nurture them witnessed that she had successfully faced the challenge of balancing the roles of her personal life and the role as an entrepreneur.

After recovering fully, Naveesha's father was satisfied with the achievements her mother had gained when he was disabled and decided not to seek other jobs and to join and develop the business of Naveesha's mother. Naveesha too determined to be a successful woman entrepreneur like her mother after studying well.

Read the above case carefully and answer the following questions.

01. Identify the entrepreneurial characteristics of Naveesha's mother.

02. Explain how she had overcome the barriers of women entrepreneurship.

Activity 03

Collect the reports/ records published in newspapers and magazines that describe the contribution of women to the economic development of the country.

Discuss them in the classroom and identify the facts which have motivated them and the challenges they have faced.

Activity 04

Identify the natural resources available in your area which are not utilized.

List business opportunities that can be exploited by women using those resources.

7.7 Business ethics and social responsibility

Business Ethics

A business should earn profits without harming the environment and any other party. For that it is necessary to follow a code of ethics when running businesses. Those business ethics depend upon the values of the people who are involved in the business.

Common agreements arrived at in writing, verbally or symbolically, by a person or a group of people regarding what is right and what is wrong or what is good and what is bad are called business ethics.

Examples :-

Giving priority to the consumer in every business affair
Doing business without harming the natural environment

Three main parties influence the determination of business ethics.

1. Proprietors
2. Members of the organization
3. External society

Activity 05

Suggest few business ethics that should be followed by a business.

Activity 06

List ten activities that can happen in a business which violate business ethics.

Social Responsibility of a Business

The traditional view regarding the social responsibility of a business is that a business should provide maximum returns for the capital invested by the owners. But at present, the social responsibility of a business has become a broader concept.

Social responsibility of a business indicates that a business has a responsibility towards the owners of the business as well as the whole external society within which the business is operated and nurtured.

Hence businesses should pay attention to the prevailing issues of the society including protecting the environment, economic development, social and cultural development and establishment of a peaceful society.

Levels of Social Responsibility of a Business

Social responsibility of a business can be fulfilled according to the following ways.

01. Economic responsibility
02. Legal responsibility
03. Ethical responsibility
04. Philanthropic responsibility

01. Economic responsibility

The responsibility to contribute to increase the rewards of the owners of the business. Fulfillment of this is essential for the survival of the business.

Examples :-

Securing the financial stability of the business, profitability, using limited resources efficiently.

02. Legal responsibility

This is to conducting the business according to the rules and regulations imposed by the government and other institutions.

Examples :-

Paying Employees Provident Fund properly
Refraining from environmental pollution
Refraining from using prohibited raw materials

03. Ethical responsibility

This is to comply with the written or symbolic rules which are believed to be right by the society in which the business operates.

Even though these responsibilities are not compulsory in order to conduct the business, they are fulfilled by businesses as they represent the expectations of different social parties.

Examples :-

Giving equal job opportunities to women and to the minority

Training and development of employees

Improving the quality of the product/service

04. Philanthropic responsibility

These are the responsibilities which are not essential for the survival of the business and not directly expected by different parties of the society from the business. These are the high level responsibilities which are fulfilled voluntarily by a business without expecting anything in return.

Examples :-

Sponsoring community events including sports, educational and health events

Stakeholders of a Business

Stakeholders are the parties who are influenced directly or indirectly due to the conduct of a business.

These parties have different expectations. Some examples for such expectations are given below.

Party	Expectation
Owners	Satisfactory return to the capital invested
Employees	Earning a reasonable salary and the job security.
Creditors	Recovering the loans provided within the due period
Government	Complying with the rules and regulations and charging taxes properly
Consumers	Obtaining quality products at a reasonable price.

As given in the above illustration different parties believe that their expectations will be met and when they are not being met they tend to act against the business. Hence, a business should decide their policies and ethics, in a way that the expectations of the above groups are met.

Rewards of Complying with Social Responsibility

- ✰ Improve the goodwill of the business
- ✰ Ensure the long term survival of the business
- ✰ Possibility of legal issues to emerge will be low
- ✰ High profitability is ensured as the demand for the products and services of the business increases
- ✰ Satisfaction and loyalty of employees will increase

Activity 07

Mark (✓) if the following statements are correct or (✗) if they are wrong in the box given in front of each statement.

No.	Cost	✓ / ✗
01	Though a high cost has to be born for waste disposal by a business, complying with that will help create a good image for the business.	
02	Businesses that are established in an economy also have the responsibility of increasing the welfare of that economy.	
03	Stakeholders are satisfied when a business complies with the equitable ethics which are acknowledged by a society.	
04	Responsibilities with which a business should comply affect the survival of the business.	
05	Responsibilities that the whole society believes a business will essentially fulfill are called philanthropic responsibilities.	

7.8 Incentives available for entrepreneurs

By promoting entrepreneurship of a country, the country can gain many benefits. Due to its importance most of the government as well as the private institutions try to promote entrepreneurship. As a result of that different incentives are given to entrepreneurs in order to start and run the businesses.

Reasons as to why the business starters require government incentives are given below.

- To encourage entrepreneurs to start new businesses
- To give the opportunity for entrepreneurs to convert their business ideas in to real businesses
- To induce self-confidence and positive attitudes of starters of business
- To provide a successful entry to the entrepreneurs
- To carry on the social welfare activities expected by a government

Types of Incentives

Different incentives given by the government can mainly be categorized as follows.

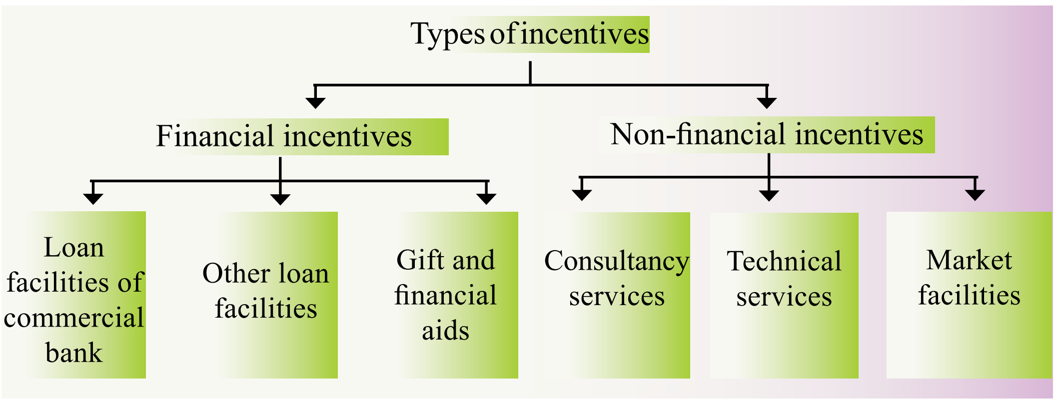


Figure 7.7

Financial Incentives

Aids given to a business which are of monetary nature are called financial incentives.

Examples :-

Giving loan facilities under concessionary interest rates
Giving loans without securities
Extending the repayment period of loans
Financial gifts

Non -Financial Incentives

Incentives given to a business which are of non- monetary nature are called non-financial incentives. That is to provide infrastructure facilities including technical and marketing facilities.

Examples :-

Training entrepreneurs
Training employees
Training on marketing
Consultation on business plan development
Giving technical training
Giving knowledge regarding packaging
Help finding the market



Activity 08

Identify whether the following are financial incentives or non-financial incentives.

No.	Incentive	Answer
01	Obtaining a bank loan of Rs. 100 000 from a State bank	
02	Getting an aid of Rs. 500 000 under non-repaying basis	
03	Receiving a machine worth Rs. 10 000 as a donation from a government institution	
04	Giving technical instructions regarding the production process of a business	
05	Giving the opportunity to participate in a workshop in order to get the instructions regarding packaging under a special promotional program	
06	Getting an opportunity to link with the foreign buyers after participating for a Exhibition organized by the Export Development Board	
07	Giving a stall of an exhibition which is worth Rs. 10,000 to an entrepreneur free of charge	

Institutions that provide incentives

Different government as well as private institutions are engaged in providing incentives to entrepreneurs.

Some examples for the institutions which provide financial incentives are given below.

All domestic commercial banks
Other financial institutions

Some institutions which provide non-financial benefits along with the services they provide are given below.

Industrial Development Board	Giving advice regarding investment opportunities Providing industrial information Giving technical support Providing engineering services Giving vocational services and basic facilities for industries Providing marketing services
Industrial Technology Institute	Giving technical consultation for industries Calibration of laboratory and technical equipments Development of products and production process Industry and laboratory measures Repairing electronic equipments Inspection of finished products and raw materials and quality control Technical training Ascertaining the technical errors of industries

Sri Lanka Export Development Board	Creating an environment conducive for exports in Sri Lanka
Sri Lanka Standard Institution	Preparing national standards Issuing quality certificates of products Certifying quality systems Inspecting the quality of export goods Import inspection Instructions to improve quality



Activity 9

Imagine that you are going to start a business. Name institutions from which non-financial facilities can be obtained for that business and identify those non-financial incentives.

Let's Answer



01. Briefly explain the term "entrepreneurial culture".
02. Describe briefly why an entrepreneurial culture should be created in Sri Lanka.
03. List social factors which are required for the emergence of an entrepreneurial culture.
04. Name four stakeholders of a business.
05. Explain the social responsibility of a business briefly and indicate the need of complying with those responsibilities.
06. Give two examples each for financial and non-financial incentives.

(All the pictures appeared in this book have been downloaded from the Internet)